LIXIL INTEGRATED REPORT 2023



LIXIL's PURPOSE

MAKE BETTER HOMES A REALITY FOR EVERYONE, EVERYWHERE

LIXIL's Purpose is the north star that guides LIXIL's employees in making decisions and inspires us to become a more agile, entrepreneurial company for sustainable growth. Our people are the ultimate drivers of value creation, and they realize LIXIL's Purpose by putting the LIXIL Behaviors into practice in their work every day.

LIXIL BEHAVIORS

DO THE RIGHT THING

WORK WITH RESPECT

EXPERIMENT AND LEARN







Our people are the ultimate drivers of value creation

LIXIL collaborates with stakeholders worldwide to take on the challenge of making better homes a reality for everyone, everywhere.

Value creation always starts with the passion of our people.







LIXIL's Value Creation Process



1 LIXIL'S PURPOSE

Make better homes a reality for everyone, everywhere



4 LIXIL'S VALUE AND IMPACT

We aim to generate sustainable growth and positive impact for society through our businesses that bring people comfort and better living



2 THE RESOURCES WE RELY ON

We cultivate financial and non-financial capital, which are the sources of value creation



3 THE WAY WE CREATE VALUE

Our people are the ultimate drivers as we take on the challenge of creating value as set out in the LIXIL Playbook

1 LIXIL'S PURPOSE

Make better homes a reality for everyone, everywhere



LIXIL's Value Creation Process









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We aim to generate sustainable growth and positive impact for society through our businesses that bring people comfort and better living

LIXIL's Value Creation Process





LIXIL'S VALUE CREATION PROCESS

How We Create Value in a Sustainable and Meaningful Way for Our Stakeholders and Society

1 LIXIL'S PURPOSE

Make better homes a reality for everyone, everywhere

Megatrends and the Current Environment p.26

2 THE RESOURCES WE RELY ON

- **Diverse and Purpose-led People**
  Approx. 51,500* employees worldwide * Number of persons employed
- **Meaningfully Designed Products**
  6 major global in-house design studios
- **"Monozukuri" Manufacturing Platform**
  80 factories worldwide
- **Global Sales Infrastructure**
  Present in over 150 countries
- **Sustainable Resource Management**
  29.9% reduction in CO_2 emissions from FYE2019
- **Unrivalled Portfolio of Brands**
  Over 70% consumer recognition rate in key markets in each region
- **Financial Foundation**
  Long-term goal of 10% core earnings margin

3 THE WAY WE CREATE VALUE

LIXIL's value creation comes from our people, who are empowered to act and create value for stakeholders via six enablers.



The LIXIL Playbook
Strategic Initiatives
Our Foundation
p.31

Corporate Governance p.63

4 THE VALUE WE CREATE

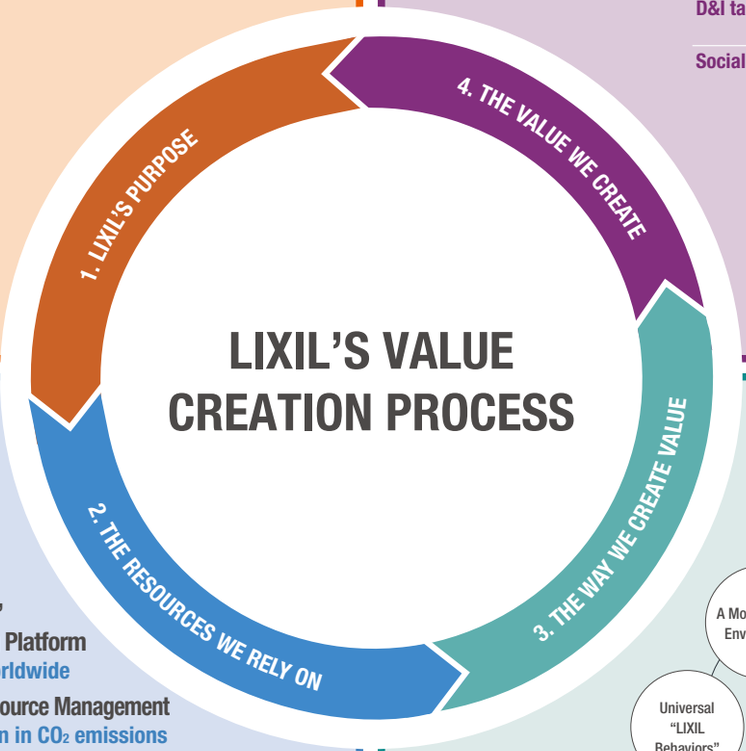
LIXIL's Impact p.28

	Outputs: Enhancing corporate value through business activities	Outcomes: Contributing to the resolution of social and environmental issues
Medium-term targets for sustainable growth	Core earnings margin 7.5% Net interest-bearing debt-to-EBITDA ratio 3.5 times or less Ratio of equity attributable to owners of the parent to total assets 35% or more	
D&I targets	50% female directors and executive officers by FYE2030 30% or more female managers by FYE2030	
Social impact targets		Carbon neutrality by FYE2051 100% ratio of high-performance windows sold by FYE2026* 100% waste recycling ratio by FYE2026 Contribute to reducing water use by 2 billion m^3 annually by FYE2025 Improve access to sanitation for 100 million people by 2025

* For new detached houses

LIXIL's Core Businesses p.41 Impact Strategy p.47

Stakeholders: Employees, Consumers, Partners, Societies, Shareholders



VALUE CREATION CASE STUDY: CHANGING THE FUTURE WITH HIGH-PERFORMANCE WINDOWS

Exemplifying our approach to achieving our purpose, LIXIL's high-performance window business delivers value in ways such as contributing to the mitigation of climate change. We use high-performance window technologies and expertise as well as other forms of capital that we have accumulated over many years to implement strategies as set out in the LIXIL Playbook. Our employees drive this process of creating value that realizes sustainable growth and positive social impact for a broad range of stakeholders.

1 LIXIL'S PURPOSE

Make better homes a reality for everyone, everywhere

Changing the future with high-performance windows for new and existing housing

High-performance windows

Promotion of high-performance houses for a decarbonized society



2 THE RESOURCES WE RELY ON

- **Diverse and Purpose-led People** — Product development that leverages diverse human resources
- **Meaningfully Designed Products** — Product design capabilities that resolve social issues
- **Global Sales Infrastructure** — A sales base that captures needs worldwide
- **Unrivalled Portfolio of Brands** — Brand power that serves diverse customer segments
- **"Monozukuri" Manufacturing Platform** — A "monozukuri" platform that utilizes accrued production technologies
- **Sustainable Resource Management** — Technologies that make effective use of limited resources
- **Financial Foundation** — A financial foundation that supports product development

LIXIL'S VALUE CREATION PROCESS

1. LIXIL'S PURPOSE
2. THE RESOURCES WE RELY ON
3. THE WAY WE CREATE VALUE
4. THE VALUE WE CREATE

3 THE WAY WE CREATE VALUE

Our people are the ultimate drivers of value creation. They draw on the LIXIL Playbook for clear strategic direction in implementing initiatives to create value.



Strategic Initiatives	☑Focus: Divest Non-core Businesses and Simplify Organization	Transform: Tackle Inflation and Supply Chain Challenges	Grow: Optimize Japan and Drive New Growth / Grow Global Water Business	Innovate: Embed Robust Environment Strategy / Develop New Core
Our Foundation	Impact Strategy: Global Sanitation & Hygiene; Water Conservation & Environmental Sustainability; Diversity & Inclusion			
	Empower our people to deliver on strategy and create value			

4 THE VALUE WE CREATE

Outputs

FYE2022 Updated high-performance product lineup for new housing

FYE2024 sales target for windows in the renovation market

Approx. 3 times sales compared to FYE2023

Approx. 200,000 detached houses

LHT renovation sales ratio

FYE2022 32% FYE2023 34%

Contribution to increasing the renovation sales ratio of LHT

Outcomes

For new detached houses

80% → By FYE2026 100%

Annual avoided emissions of CO_2

Assuming achievement of sales target at left: 26,000-ton reduction*

For existing homes

CO_2 emissions reduction contribution/year

In-Plus inner window: -34 kg/window*

Replus: -33 kg/window*

* Estimated by LIXIL

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Our corporate purpose, our value creation process, an overview of LIXIL, and management messages

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Editorial policy
This integrated report aims to enhance communication with LIXIL's stakeholders, especially investors, by presenting our initiatives to achieve long-term, sustainable growth. In editing, we focused on key content and aimed for an easy-to-understand structure. Please refer to our corporate website for information not included in this integrated report, such as detailed non-financial and financial information, and our latest news.

Frameworks referenced

Environment Social Governance
Guidance for Collaborative Value Creation

International initiatives LIXIL has joined

THE GLOBAL COMPACT WE SUPPORT

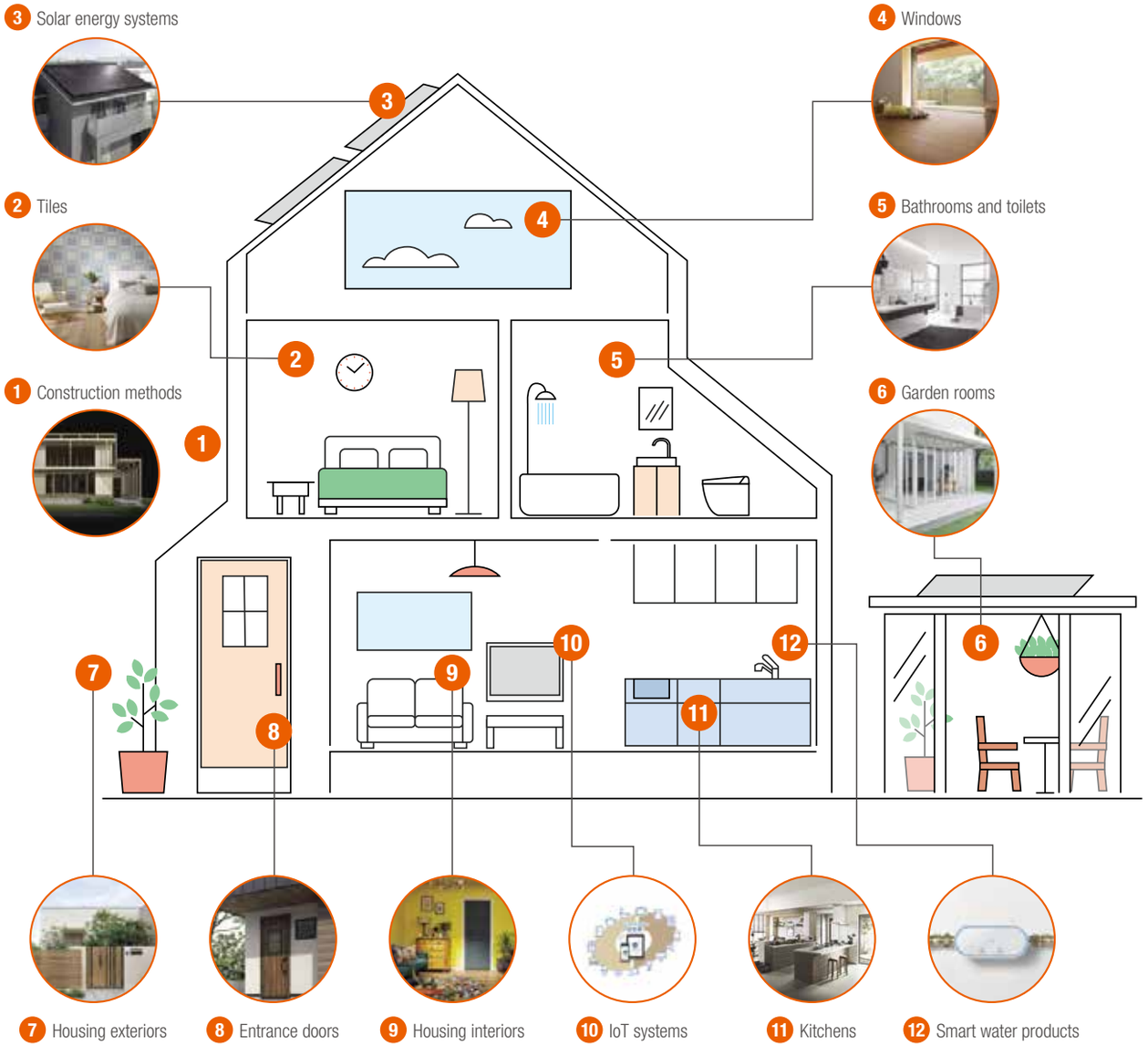
TCFD

Organizations covered
LIXIL Corporation ("the Company") and its consolidated subsidiaries (collectively, "the LIXIL group")

Period covered
April 1, 2022 through March 31, 2023
Note: Some activities from before or after the reporting period are included.

OVERVIEW

Make better homes a reality for everyone, everywhere. LIXIL provides a wide range of high-quality products that resolve issues in everyday life globally by employing world-leading technologies and innovation.



LIXIL AT A GLANCE

As an industry leader, we fully leverage the various forms of capital we have developed over our history to expand our business globally.

Touching the lives of over 1 billion people every day

Present in over 150 countries

Approx. 51,500 employees around the world

Over 100 years of brand history

¥1,496.0 billion consolidated revenue

¥25.7 billion core earnings

80 factories

116 showrooms

16 household product brands

6 major design studios

¥23.5 billion invested in R&D

13,000+ patents and design applications worldwide

(As of March 31, 2023)

(FYE2023 results)

WATER TECHNOLOGY BUSINESS (LWT)



Revenue



Core earnings*1	**¥47.3 billion**
Employees*2	**30,913 people**
R&D	**¥16.7 billion**

*1 Equivalent to operating profit in JGAAP
*2 Excluding non-regular employees

Principal Products and Services

Plumbing fixtures
Sanitaryware, shower toilets, water faucets, washstands, bathtubs, prefabricated bathrooms, smart products, showerheads, washstand fixtures, washstand cabinet units, kitchen systems, etc.

Tile building materials
Tiles for houses and buildings, interior decorative tiles, etc.

Direct Customers

- Dealers
- Sales agencies
- Construction companies
- Architectural firms
- Developers
- Wholesalers
- Building material trading companies
- Volume retailers
- General consumers

Competitors

- Kohler
- Roca
- Hansgrohe
- Masco (Delta)
- Fortune Brands (Moen)
- Geberit
- TOTO
- Takara Standard
- Cleanup
- Panasonic

Product Brands

INAX GROHE American Standard COBRA DXV RICHELLE SPAGE

Note: In order to strengthen the foundation of the Japan business, the kitchen, vanity, and interior businesses were consolidated to launch the Living Division in April 2023.

HOUSING TECHNOLOGY BUSINESS (LHT)



Revenue



Core earnings*1	**¥19.4 billion**
Employees*2	**19,299 people**
R&D	**¥6.9 billion**

*1 Equivalent to operating profit in JGAAP
*2 Excluding non-regular employees

Principal Products and Services

Metal building materials
Window sashes for houses, buildings, and stores, entrance doors, shutters, gates, carports, banisters, high railings, curtain walls, etc.

Wooden interior furnishing materials
Window frames, wooden furnishing materials, interior decorative materials, etc.

Other building materials
Siding, roofing materials, etc.

Housing and services
Development of homebuilding franchise chains and construction on order, real estate management services, support for development of real estate franchises, housing loans, etc.

Other
Solar power systems, etc.

Direct Customers

- Dealers
- Sales agencies
- Construction companies
- Architectural firms
- Developers
- Building materials wholesalers
- Homebuilders
- House manufacturers
- General consumers

Competitors

- YKK AP
- Sankyo Tateyama
- SHIKOKU CHEMICALS
- Takasho
- Panasonic
- DAIKEN
- Eidai
- NODA
- NICHIHA
- KMEW

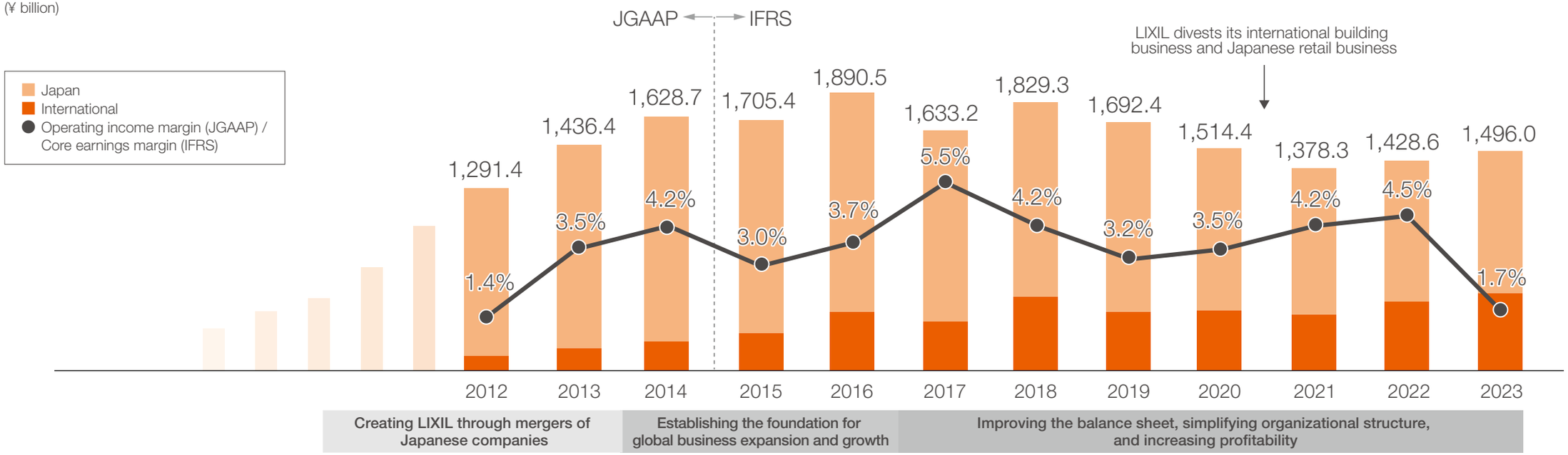
Product Brands

TOSTEM exsior Interio SUPER WALL NODEA AT ASAHI TOSTEM
アイフルホーム フィアスホーム GLホーム ERA REAL ESTATE JAPAN

LIXIL'S HISTORY

Net Sales (JGAAP) / Revenue (IFRS) (Years ended March 31)

(¥ billion)



Corporate Developments

2001
- INAX Corporation and TOSTEM Corporation merge

2011
- Five companies merge and establish LIXIL Corporation
- Permasteelisa becomes a subsidiary

2013
- American Standard's North American business becomes a subsidiary

2014
- GROHE becomes an equity-method affiliated company

2015
- GROHE becomes a subsidiary

2020
- LIXIL focuses on core businesses
- LIXIL divests its international building business and Japanese retail business

History of Value Creation

1967
- First made-in-Japan shower toilet launches



2010
- High-performance hybrid window *SAMOS* launches



2013
- Manufacturing and sales of SATO toilet pans begin



2014
- *SPAGE*, a prefabricated bathroom, launches



2016
- Corporate Responsibility Strategy* formulated
- *AQUA CERAMIC*, an industry leading new material that prevents stains, launches

* Became Impact Strategy following update in 2023



2020
- Environmental Vision 2050 announced

2021
- GROHE's Cradle to Cradle Certified® products unveiled
- High-performance resin window *EW* launches



2022
- Development of *revia*, a sustainable material
- Launched *PremiAL*, a series of low-carbon aluminum extrusion products





2023
- GROHE *Everstream* concept announced

CEO MESSAGE

CAPITALIZING ON GLOBAL SHIFTS TO STRENGTHEN OUR FOUNDATION FOR SUSTAINABLE GROWTH

Kinya Seto
Director, Representative Executive Officer,
President, and CEO



In FYE2023, we faced considerable headwinds stemming from a difficult global economic environment. Our challenges included global inflation surpassing expectations and widespread supply chain disruptions. Furthermore, the yen depreciated significantly, material costs increased, and consumer sentiment declined as a result of rising interest rates and persistent uncertainty over the future.

In response to these changes, we promptly executed a number of measures, from optimizing our pricing to addressing supply chain issues. While we succeeded in growing revenue, however, profitability declined significantly over the full year as a result of the prevailing headwinds, in addition to factors such as the time lag between cost increases and our price optimization measures.

We acknowledge that our full-year results for FYE2023 were behind our targets set at the beginning of the fiscal year, and we take this matter seriously as it represents a shortfall in meeting the expectations of our stakeholders.

Although we have made significant progress in addressing these global shifts, due to the ongoing economic downturn in Europe and the United States, as well as a greater than expected decline in new housing starts in Japan, we expect our full recovery to be from the latter half of FYE2024. We firmly believe, however, that such challenges have provided us with invaluable lessons. From enhancing our lineup with environmentally friendly products and reinforcing our supply chain to improving our overall productivity, the measures we are taking are building a more resilient LIXIL in the long term.

Turning External Challenges into Opportunities

Among these measures, we are addressing supply chain challenges by building more resilient product supply systems as well as enabling supply chain redundancy. In addition to promptly optimizing

our prices ahead of our peers, we are also taking measures to reduce fixed cost burdens resulting from decreased sales volume and recognizing the need for further structural reforms.

Furthermore, with growing environmental awareness and increasing demand for home renovation, we have been swiftly adapting to changes in the market and consumer behavior. We will continue to introduce new, innovative, and differentiated products, especially environmentally friendly products. Our focus on differentiated products, together with our pursuit of digital transformation and new business models, will drive growth and higher margins in the future.

While we anticipate global economic uncertainty will remain high in FYE2024, we see strong growth prospects in markets such as Southeast Asia, driven by population growth, as well as the Middle East, which we regard as a robust growth market with significant untapped potential. By strengthening our initiatives in these markets and reallocating resources, we aim to provide support that makes better homes a reality for everyone living in these regions.

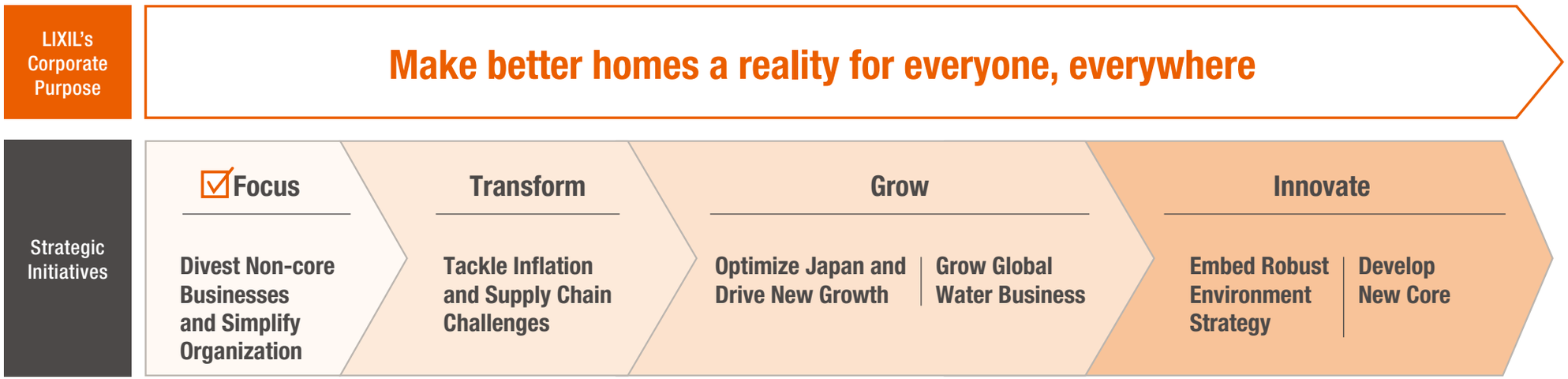
Updating the LIXIL Playbook

The LIXIL Playbook, first introduced in FYE2021, is an evolving document that outlines the strategic initiatives that everyone at LIXIL should prioritize, and the role each person must play to make them a reality. I am pleased to report that many of the original initiatives have either been almost completed or are well under way.

The first strategic initiative, which was "Divest Non-core Businesses and Simplify Organization," is the first to be completed. This included divesting non-core assets and simplifying our overly complex corporate structure, which we inherited when LIXIL was formed from five separate Japanese companies. It is the first step in our ongoing work to establish our global organizational framework.

We have since updated the LIXIL Playbook to adapt to our rapidly changing business environment and are now focused on five priority initiatives:

- **Tackle Inflation and Supply Chain Challenges**
  We will further strengthen our logistics and procurement processes, leverage the platform production model to increase efficiency, and use alternative materials to reduce cost
- **Optimize Japan and Drive New Growth**
  As new housing starts decline, we will accelerate our growth in the renovation market, expanding our focus to include energy-saving products such as high-performance windows
- **Grow Global Water Business**
  We will capture profitable growth in different regions leveraging our global network and extensive brand portfolio, focusing on high-value-added, high-margin products





■ **Embed Robust Environment Strategy**
We are expanding our lineup of environmentally friendly products, aiming to differentiate ourselves and seize new growth opportunities, while making a positive impact on the environment

■ **Develop New Core**
We are focusing on establishing new game-changing technologies, products, and business models

While our strategic initiatives have evolved, we are maintaining our financial targets of 10% core earnings margin and 10% Return on Invested Capital (ROIC) in the long term. As a milestone, our medium-term goal is to achieve a stable core earnings margin of 7.5%, and when excluding the impact of sudden changes to our external operating environment this past year, we believe we are making progress toward this goal. I am confident that if we can get our five key initiatives right, we can meet the expectations of our shareholders and other stakeholders.

Strengthening Our Environmental Response

In the updated version of the Playbook mentioned earlier, we added "Embed Robust Environment Strategy" as a strategic initiative. When it comes to Environmental, Social, and Governance (ESG) initiatives, our focus extends beyond showcasing our commitment to environmental considerations. Instead, we aim to explicitly incorporate and drive these initiatives as an integral part of our business strategy.

While many companies around the world seek to reduce their carbon footprint, our goal at LIXIL is much more ambitious: we believe LIXIL has the unique ability to help the world reduce its carbon footprint. Building-related operations account for an estimated 28% of the world's energy-related CO_2 emissions, with residential building operations accounting for an estimated 17%.* The products we offer at LIXIL have high insulation properties, enable efficient water resource utilization, and contribute to improved hygiene and people's health, thereby helping people everywhere to live more comfortably while reducing their burden on the planet. At the same time, we are improving energy efficiency and

* *2022 Global Status Report for Buildings and Construction*, Global Alliance for Buildings and Construction

optimizing resource utilization across our business processes and the entire value chain. We are also actively promoting the circular use of resources and working toward establishing a business model that is both sustainable and competitive in order to maximize our impact on the environment and society.

Transitioning to an Impact Strategy

The ESG landscape is rapidly evolving and stakeholder expectations are higher than ever. In order to further accelerate our initiatives that go beyond the boundaries of corporate responsibility and obligations, we transitioned from our existing corporate responsibility strategy to an "Impact Strategy" in April 2023, placing it at the center of our business strategy. With a stronger emphasis on accountability and transparency, we aim to create a positive impact on both the environment and society through a more holistic approach – all while simultaneously pursuing financial results that lead to the creation of long-term value.

There is no change to the three core pillars of the Impact Strategy: Global Sanitation & Hygiene, Water Conservation & Environmental Sustainability, and Diversity & Inclusion. Through the SATO brand, we have scaled up efforts to provide innovative and affordable toilets and handwashing solutions to underserved communities around the world. We will enhance collaboration across the public and private sectors, focusing on solutions to improve sanitation and hygiene, and create a positive social impact that can help people everywhere live better lives.

In response to the escalating environmental challenges worldwide, we have updated our environmental strategy. We have established medium-term key performance indicators (KPIs) and defined clear responsibilities for focus areas, including reducing CO_2 emissions through climate change mitigation, ensuring water sustainability, and promoting the circular use of limited resources. We aspire to expand our impact beyond our value chain and extend our reach beyond the boundaries of our existing business to make a positive impact on society and the environment.

For Diversity & Inclusion, our focus has expanded from gender equity. Driving inclusion allows us to integrate more diverse knowledge and perspectives, better catering to the needs of our diverse customer base and creating new business opportunities.

Pursuing Purpose-led Innovation

We have been actively transforming our organization, aiming to foster a dynamic and entrepreneurial mindset throughout in pursuit of our purpose, to "make better homes a reality for everyone, everywhere." As we accelerate innovation across the entire organization, I would like to highlight two examples.

Our circular material *revia* launched this year, marks a breakthrough in helping to recycle the growing global stockpile of plastic waste. Currently, only 9% of global plastic waste is recycled, with the rest either incinerated, put in landfills, or ending up in the ocean. We have now successfully developed technologies to recycle almost all types of waste plastics, including composite and marine plastics, which were previously challenging to recycle. The commercialization of *revia*, a product made from plastic waste and waste wood, as a pavement material marks a significant advancement in accelerating the transition toward a circular economy. We are actively developing an ecosystem for waste plastics that spans from procurement, production, sales, and installation, to collection.

Under our GROHE brand, we have developed the GROHE *Everstream* shower system, which reuses water. In many developed countries, showers and baths account for a significant portion of household water consumption. However, water scarcity has emerged as a pressing global social issue due to factors like climate change and population growth. GROHE *Everstream* enables hot water to be reused, reducing the amount of water consumed and the energy required to heat the water. It is scheduled for commercialization in spring 2024.

Encouraging consumers to change their behaviors and lifestyles is not an easy task. To address the increasing environmental challenges worldwide and the need to support sustainable living for future generations, we must take on the role of corporate citizens. By offering innovative technologies and products such as *revia* and GROHE *Everstream*, we are confident that we can foster an environment where individuals can embrace new possibilities and adapt to changes in their lives without compromising on comfort.

Promoting innovation is not only a fundamental aspect of fulfilling our corporate responsibility, but it is also crucial to achieving sustainable growth as well as delivering value to diverse stakeholders. But such innovation does not come by chance. We are strategically focused on fostering innovation by incorporating it into the LIXIL Playbook.













Strengthening Our Foundation

To ensure the successful implementation of our strategies and the achievement of our goals, we have integrated our Global People Strategy into our foundation. At the core of this strategy is Diversity & Inclusion (D&I), which serves to empower and enable our people.

With aging societies in many of the countries where we do business, the competition for talent is intensifying. Driving D&I is vital to enhance LIXIL's long-term competitiveness, secure the talent we need to fuel our growth, and foster a corporate culture that nurtures innovation.

We are also proud to count ourselves as a leader in advancing D&I in the housing and plumbing industries, which are traditionally seen as male-oriented. In an inclusive corporate culture, diversity flourishes, and within a diverse and inclusive work environment that embraces differences, exceptional talent can unleash its full potential. Furthermore, actively creating an inclusive environment is also critical to developing new ideas to drive future growth. We believe that the more diverse the viewpoints that we can bring to a problem, the more certain we can be of making new discoveries and driving innovation.

Continuously Evolving to Enhance Corporate Value

Despite the uncertain business environment we face, we see new challenges as opportunities to strengthen our resilience to external changes. In the medium to long term, we must continue to drive innovation and expand our portfolio of differentiated products in order to establish a more solid revenue base. Furthermore, we must pursue not only profits in the short term but also sustainable growth, all while collaborating with our stakeholders to create a positive impact on society and the environment. We are confident that this is the direction we must take to achieve long-term value creation and meet the expectations of our stakeholders.

With LIXIL's Purpose serving as our north star, we are committed to overcoming the challenges we face to transform LIXIL into a *great company* – one we can all be proud of.

CFO MESSAGE

WE ARE STRIVING TO IMPROVE CAPITAL EFFICIENCY AND INCREASE FREE CASH FLOW TO BUILD A SOLID FINANCIAL POSITION, WHICH WILL BE ESSENTIAL FOR BUSINESS GROWTH

Sachio Matsumoto
Director, Representative Executive Officer,
Executive Vice President, Finance, Treasury, M&A, and IR, and CFO



FYE2023 in Review and Financial Priorities for FYE2024

In FYE2023, we faced the most challenging business environment that we had encountered for quite some time due to the sharp depreciation of the Japanese yen, rising material and component prices, and supply chain constraints in Europe that continued into the third quarter.

While revenue increased ¥67.4 billion year on year to ¥1,496.0 billion due to factors including the depreciation of the yen and price optimization, core earnings decreased ¥39.1 billion year on year to ¥25.7 billion due to the lag between the time of cost increases and the time we were able to effect price optimization, which meant that we were unable to fully offset cost increases in the full-year results.

The main factors behind these results were that we were not able to fully reflect higher raw material and component costs in prices during the fiscal year, especially in Japan, where the yen depreciated rapidly, and the impact on sales and production caused by weakening demand amid rising prices in many parts of the world.

We believe that each of these challenges to restoring profitability must be addressed separately with respect to firstly the increase in variable costs, and secondly the increase in fixed costs.

First, it is essential to reflect higher variable costs, such as raw material and component costs, in selling prices. In that respect, we have tried to be as agile as possible and in the fourth quarter we began to see signs that those efforts are finally starting to produce results. If we foresee further increases in variable costs, we will work to restore and enhance profitability through flexible pricing in line with those increases.

On the other hand, these responses have led to a softening of demand in many parts of the world due to the effects of inflation. Declining sales volumes slow the rate at which cost increases can be reflected in prices and, from the perspective of production, raise fixed costs ratio per product. Unlike with variable costs, it is not always appropriate to pass on higher fixed costs through prices, so companies need to make greater efforts to reduce fixed costs and expand sales of high-value-added products.

Therefore, especially in FYE2024, our top financial priorities are to further reduce fixed costs (i.e., an asset-light approach) through our ongoing activities to improve capital efficiency using return on invested capital (ROIC) management and control, as well as measures to increase free cash flow* by optimizing inventory levels, for the purposes of development, production, and sales of high-value-added products.

* Free cash flow = Net cash flows from operating activities
+ Net cash flows from investing activities

Improving Capital Efficiency through ROIC Management

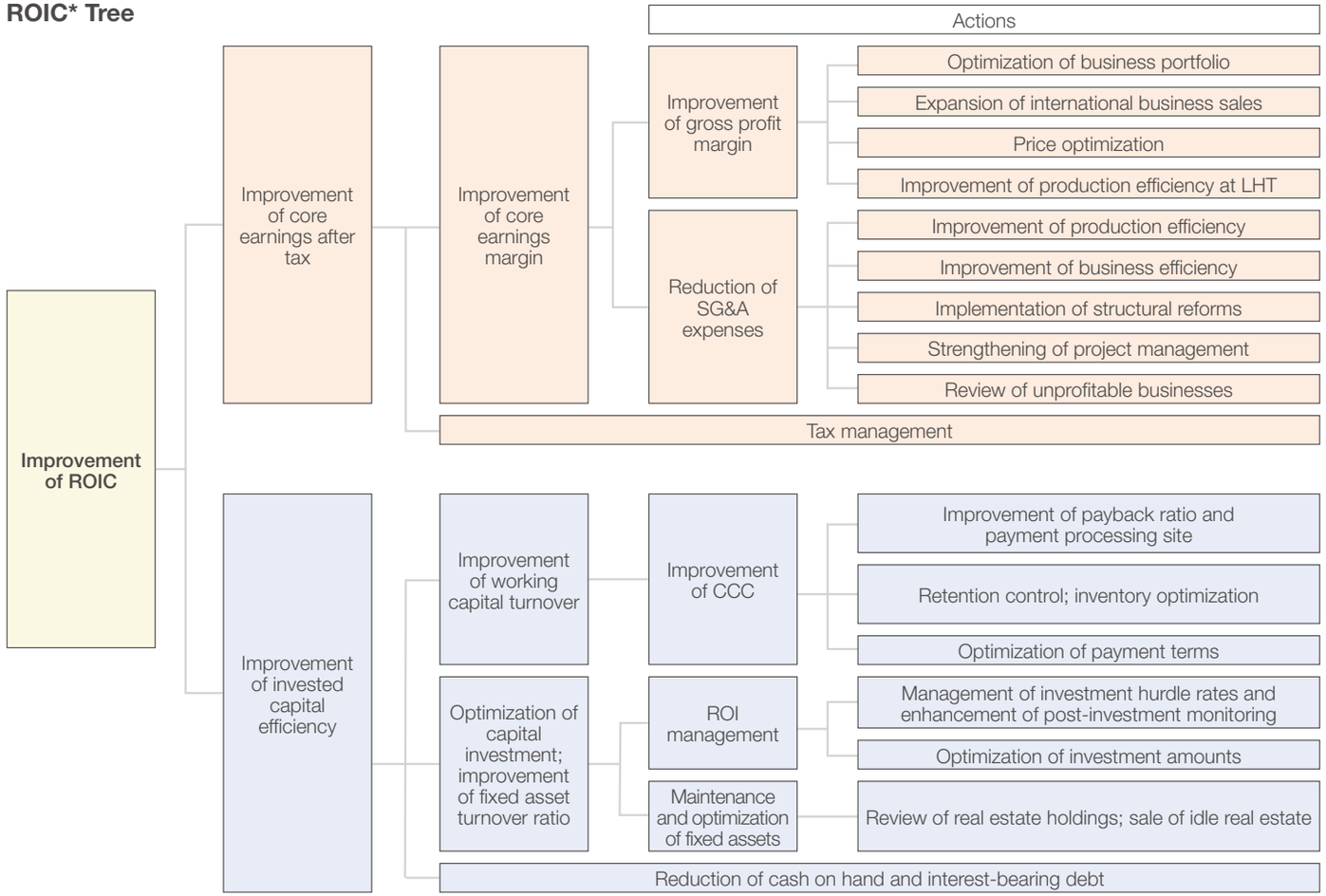
We seek to improve capital efficiency by strengthening our financial position and enhancing profitability. To that end, we introduced ROIC management globally in 2019, and have been increasing the incentive to achieve results by incorporating ROIC into performance metrics, setting targets by organization using ROIC tree diagrams, and managing and reporting progress on a monthly basis.

Improvement of gross profit margin: We are working to improve our gross profit margin through initiatives to overcome changes in the business environment from the perspectives of selling prices and reduction of production costs.

To overcome issues related to selling prices, we are shifting to high-value-added and differentiated products, including the expansion of our lineup of environmentally friendly products, and building and operating the frameworks that will enable us to flexibly establish pricing. For production costs, we are adopting an asset-light approach to promote the reduction of fixed expenses.

Reduction of SG&A expenses: In addition to enhancing productivity through the use of digital technology, consolidating and optimizing showrooms and sales offices, and optimizing personnel allocation, we relocated our headquarters to a smaller location while further promoting working from home and autonomous work styles suited to each employee's way of life. We will continue reducing fixed costs and improve capital efficiency by further promoting the use of digital tools to increase productivity and utilizing shared services for back-office operations.

ROIC* Tree



* ROIC = Operating profit × (1 – Effective tax rate) / (Working capital + Fixed assets)

Tax management: We will promote fair and appropriate tax payment and tax management.

Improvement of CCC: As a consequence of our response to supply chain disruptions, the cash conversion cycle (CCC) increased by 17.7 days year on year to 99.2 days, mainly due to a longer inventory turnover period as part of strategic buildup of inventory to stabilize product supply. In FYE2024, however, in light of the recent resolution of supply chain issues, we will focus on improving inventory turnover by reducing inventory levels to March 31, 2022 levels.

ROI and ROIC management: We have been introducing investment evaluation guidelines that target improved investment efficiency. We apply hurdle rates for investment decision-making, which are calculated for each project and depend on the investment goal, taking into account differences in country risk and the inflation rate of the relevant market (e.g., for companies in Japan, the hurdle rate is set at 10%).

Maintenance and optimization of fixed assets: In line with our policy of adopting an asset-light approach to improve capital efficiency, in FYE2023 we closed the Maebashi and Yokohama plants, and relocated our headquarters to a smaller location. In FYE2024, we will continue to pursue an asset-light approach with measures to restructure the supply chain and resolve current supply chain issues.

Reduction of cash on hand and interest-bearing debt: In FYE2023, net interest-bearing debt increased by ¥87.4 billion year on year to ¥511.7 billion. The primary factors were the acceleration of payments to suppliers in accordance with our Declaration for Building Partnerships and the issuance of corporate bonds to raise funds in relation to securing working capital at an earlier stage in anticipation of future interest rate increases. In FYE2024, we aim to reduce interest-bearing debt and improve our financial position by enhancing free cash flow from the second half of the fiscal year.

Ensuring Financial Stability

We are currently in the phase of laying the foundations for future growth through innovation, and as such we are not considering any large M&As or capital investments. Consequently, we do not have any plan for large borrowings or a capital increase for the time being. However, we do plan to increase operating cash flow through growth investments in intangible assets such as IT, talent, design, and branding that will lead to LIXIL's long-term sustainable growth. We will also generate the necessary funds for growth investments by optimizing our asset holdings.

In FYE2024, the amount of capital expenditures will increase due to factors including the yen's depreciation and increased IT investment for further productivity improvement. Taking these factors into account, we aim to make investments totaling approximately ¥65 billion as we continue our policy of allocating more capital for investment purposes and to projects that are highly capital efficient and contribute to future growth.

A stable financial base is essential for achieving sustainable medium- to long-term growth.

While both enhancing profitability and strengthening our financial position, we will pursue a net interest-bearing debt-to-EBITDA ratio of 3.5 times or less and an improved ratio of equity attributable to owners of the parent to total assets* of 35% or more as medium-term targets, and work to improve capital efficiency and reduce interest-bearing debt based on an asset-light approach.

* Equity ratio under JGAAP

Policy on Capital Allocation and Shareholder Returns

Our basic policy on shareholder returns is to maintain a consolidated dividend payout ratio of 30% or more, and to return profits to shareholders in a stable manner, taking into consideration financial condition and profit level. Based on this policy, in FYE2023 we issued an annual dividend of ¥90 per share and conducted share buybacks to the value of ¥10 billion. Our forecast for FYE2024 is an annual dividend of ¥90 per share, based on the assumption of continued improvement in profitability.

As our business environment is changing rapidly, it is necessary for us to respond quickly and appropriately. By steadily implementing the measures outlined above, we will strive to secure financial stability and achieve sustainable growth.

CPO MESSAGE

AN INCLUSIVE CULTURE THAT EMBRACES DIVERSITY IS THE DRIVING FORCE FOR SUSTAINABLE AND LASTING IMPACT

Jin Song Montesano
Director, Representative Executive Officer, Executive Vice President, Human Resources, Communications, External Affairs, and Impact Strategy, and Chief People Officer

LIXIL's corporate purpose is to make better homes a reality for everyone, everywhere. This purpose is the starting point that guides everything we do. A better home can be a more sustainable home that maximizes recycled materials. It can be a more comfortable home fitted with high-performance, heat-insulating windows. It can be a healthier home equipped with products that enhance home sanitation and hygiene. And it can be a safer and more secure home with improved accessibility for all generations living under one roof, as well as those with mobility issues. Through the products we make and the sustainable ways in which we make them, we aim to deliver on our corporate purpose and create positive impact for all of our stakeholders.



Shift to Impact Strategy

Being a purpose-driven company, LIXIL is passionate about making a positive impact on society and the environment. Since the launch of our Corporate Responsibility Strategy (CR Strategy) in 2016, we have focused on fulfilling our role as a responsible corporate citizen. While we are proud of what we have achieved thus far, LIXIL's initiatives under this strategy have evolved beyond just meeting our responsibilities or obligations. To more accurately articulate our approach and continue to strengthen our commitment, we have shifted our CR Strategy to become LIXIL's Impact Strategy from April 2023.

Why Impact? LIXIL's proactive efforts and strong commitment to build a more sustainable world over these past years is today better represented by Impact rather than Responsibility. The shift to Impact Strategy will further drive us to be a proactive, solutions-oriented organization. It will allow us to take a more holistic approach to make a positive environmental and social impact as part of our pursuit to improve financial outcomes for LIXIL. It will also place a stronger emphasis on accountability and transparency, which we believe will further build trust with our stakeholders. There are no changes to the three strategic pillars we set forth in 2016. I am pleased to report that we have made solid progress across the pillars during FYE2023, some of the highlights of which I will outline below.

Global Sanitation & Hygiene

Our social business SATO, which contributes to Goal 6 of the United Nations' Sustainable Development Goals (SDGs) – Ensure availability and sustainable management of water and sanitation for all – by enabling access to adequate and equitable sanitation and hygiene for all, continues to extend its reach. This year marks the tenth anniversary of the launch of SATO, and we are celebrating the progress by extending the lineup with two new products. The *SATO Slab* will facilitate the swift installation of toilet facilities. The product is suitable for various needs, including humanitarian purposes, because many toilets can be installed at once. SATO launched operations in Bangladesh with a single product offering in 2013. Today in Bangladesh, we are helping expand the local sanitation industry in what has become our largest SATO market not only by extending our product portfolio, but also by building a solid supply chain that spans production and distribution.

To accelerate change at scale, in FYE2023, we continued to focus on creating sustainable markets through collaboration with public and private organizations. We joined with FINISH Mondial, a partnership for financial inclusion that aims to create sustainable change and increase access to safe sanitation through economic empowerment. This new partnership is expected to help reduce the affordability gap by positively impacting the entire value chain of the sanitation economy. Our "MAKE A SPLASH!" global partnership with UNICEF continues to build momentum, working across six focus countries in Africa and Asia. In Japan, we raised awareness among consumers through the "Cleanliness for All" campaign held during the months of October through December in 2022, which also further supported the partnership activities.

Furthermore, we are excited to report that we established our first dedicated public sector engagement platform, LIXIL Public Partners (LPP), to explore synergies and expanded collaboration with the public sector for the delivery of innovative household solutions in water, sanitation, and hygiene. These efforts will build on our existing initiatives, including SATO, and we are working with the government, NGOs, and academic institutions to tackle America's sanitation challenges.

I am pleased to report that SATO has shipped over 1 million products for four consecutive years, and LIXIL's sanitation initiatives have positively impacted 45 million people in 45 countries to date.*1 We are proud of this progress and are committed to delivering on our ambitious goal of improving the lives of 100 million people through safe sanitation and hygiene by 2025.

*1 As of April 2023

Water Conservation & Environmental Sustainability

As a maker of pioneering water and housing products, addressing environmental issues is critical in pursuing our corporate purpose and ensuring the sustainability and viability of our business. To this end, in FYE2020, we established our Environmental Vision 2050 for Zero Carbon and Circular Living and determined the three focus areas to achieve this vision: Climate Change Mitigation and Adaptation, Water Sustainability, and Circular Economy.

In FYE2023, we updated our Environmental Strategy, setting out new medium-term targets across our operations, value chain, and beyond, to expand the positive impact LIXIL can make on environmental issues of the world. In doing so, we have integrated the Environmental Strategy into our business strategy more clearly than ever before and clarified our commitment to creating a positive impact in addressing social and environmental issues through product innovations and new solutions.

In the field of Climate Change Mitigation and Adaptation, LIXIL is working to achieve net-zero carbon emissions in operations, housing, and lifestyle solutions. We have renewed our certification from the Science Based Targets initiative (SBTi) in line with its targets to cap global temperature increase at 1.5ºC compared to pre-industrial temperatures. We are furthering our innovations in manufacturing technology to reduce production emissions and successfully verified the use of hydrogen combustion for aging treatment to fortify finished aluminum parts at a production plant in Japan last year. We are also increasingly switching to the use of renewable energy and installed solar power generation systems based on on-site Power Purchase Agreements (PPA) in Japan and overseas. We will continue to actively pursue such "additive" renewable energy procurement methods in our operations. We are pleased that such initiatives have contributed to a significant increase in our ratio of renewable energy usage from 16% in FYE2022 to approximately 26% in FYE2023.

To facilitate Water Sustainability, we are actively developing water technology products that enable the reduction of water usage, in addition to reducing usage in our operations. A key part of the solution in protecting the planet's limited water resources is to make homes, and particularly bathrooms, more water efficient. One recent example of our innovation in this field is GROHE *Everstream*, which is designed to create the shower experience that people expect while consuming only a quarter of the water and a third of the energy by recycling water. This new technology is scheduled for launch in spring 2024.

We are also accelerating our efforts to contribute to the realization of a Circular Economy through product innovation. In FYE2023, we launched *revia*, a new material that combines waste plastic with waste wood, which previously had to be disposed of by landfill or incineration. With the urgent need to deal with the



challenge of recycling waste plastics, *revia* opens up opportunities to cut CO_2 generated from conventional waste processing. *Revia* is currently marketed as a paving material and can be applied to other products, such as decks and fences. Last year, we also launched the *PremiAL* series of window sashes in Japan, which uses recycled aluminum as raw material. The initial product *PremiAL R70* uses 70% recycled aluminum. We have already succeeded in developing the technology to make products from 100% recycled aluminum and plan to launch *PremiAL R100* in fall 2023.

Diversity & Inclusion (D&I)

The true, meaningful impact LIXIL can make on society is only possible when every employee can fully demonstrate their individual potential and ability. Through our employees, we will respond to the diversifying needs of society with innovative products and services made possible by their knowledge and perspectives.

LIXIL is fostering an inclusive culture that embraces employee diversity to maximize the full impact of our diverse and capable workforce. We are on track to meet our 2030 D&I goal to embed a culture of inclusion across LIXIL and achieve key gender equity goals. Our Human Resources focus for FYE2023 was to deepen managers' and employees' understanding and engagement of D&I. We published the LIXIL Leaders' Guide to Advancing D&I to support our leaders in becoming more effective in activating D&I with tailored solutions for their teams. We also built the D&I Dashboard to enable leaders to monitor progress toward D&I goals and assess current status regularly. With these tools in place, we have shifted the accountability of driving D&I to each business from FYE2024 and will review the progress at the D&I Committee.

As a part of our initiatives in promoting D&I externally, in FYE2023, LIXIL launched a new product line, *Art Brut Ecocarat*, in collaboration with Heralbony Co., Ltd., an experimental welfare unit with the mission of "Unleashing the Exceptionality." This social business project uses art drawn by neurodivergent artists contracted to Heralbony Co., Ltd., as *Ecocarat* tile designs and pays license royalties out of the product sales revenue to the artist. We also started using AmiVoice ScribeAssist,*2 a transcription app that utilizes AI voice recognition, to better serve customers with hearing disabilities when providing consultation via our online showroom.

*2 Product of Advanced Media, Inc.

Talent Strategy and Employee Engagement

LIXIL continues its ambitious journey of transformation, the core part of which is our talent strategy. Our employees are the force behind creating long-term corporate value, and we are investing in the learning and development of our employees to ensure sustainable growth. In collaboration with the Tuck School of Business at Dartmouth College (of the U.S.), we are offering the Tuck Innovation Program to our senior and high-potential leaders, specifically designed to build a shared common language around strategy and transformation, enable more efficient decision-making, and inspire collaboration. We are also now providing access to LinkedIn Learning to more employees, not just managers, to build a strong foundation of management skills and capability.

Our drive to embed D&I, together with our talent strategy, has already made a significant impact on our employees' engagement. The five global Employee Resource Groups we launched in 2022 to build global community around shared interests and topics among employees all remain highly active and engaged, and we are seeing new groups being formed by employees. Through the D&I Strategy, we ignited the emergence and activities of communities of employees with affinities on topics they care about to advocate improvements. We are excited to see the grassroots energy and innovation emerging from our employees to make LIXIL a great place to work.

As we continue our efforts to make a positive and lasting impact on society and the environment, our ongoing work on ESG (Environment, Social, and Governance) has received top-level evaluations. LIXIL has been selected for the first time for the MSCI Japan ESG Select Leaders Index. As of June 2023, we have been selected for all six ESG indices adopted by Japan's Government Pension Investment Fund (GPIF). We also received the highest AAA "Leader" rating in the MSCI ESG Ratings assessment for the first time in recognition of our ESG initiatives and highly transparent disclosure. LIXIL also earned a place in CDP's Water Security A List for the second consecutive year and has been named to Dow Jones Sustainability World Index for the fourth consecutive year. Furthermore, for the seventh time, we were selected as one of the Nadeshiko Brands for our excellence in advocating the empowerment of women in the workplace.

At LIXIL, we have a diverse workforce that is incredibly passionate about our purpose and the products we produce. Our shift to Impact Strategy will further ignite the internal energy we have in seeking ways to make better homes a reality for everyone, everywhere.

EXECUTIVE OFFICERS (As of June 21, 2023)*



(From the left)

Hiroyuki Oonishi
Executive Officer, Executive Vice President, LIXIL Water Technology (LWT) Japan
Number of Company shares owned: 22,696
Number of Phantom Stocks held: 16,007

Yugo Kanazawa
Executive Officer, Executive Vice President, Marketing and Digital, and Chief Digital Officer
Number of Company shares owned: 20,913
Number of Phantom Stocks held: 22,608

Satoshi Yoshida
Executive Officer, Executive Vice President, LIXIL Housing Technology (LHT)
Number of Company shares owned: 19,047
Number of Phantom Stocks held: 18,021

Kinya Seto
Director, Representative Executive Officer, President, and CEO
Number of Company shares owned: 560,024
Number of Phantom Stocks held: 242,315

Jin Song Montesano
Director, Representative Executive Officer, Executive Vice President, Human Resources, Communications, External Affairs, and Impact Strategy, and Chief People Officer
Number of Company shares owned: 67,983
Number of Phantom Stocks held: 33,304

Bijoy Mohan
Executive Officer, Executive Vice President, LIXIL International
Number of Company shares owned: 0
Number of Phantom Stocks held: 145,653

Sachio Matsumoto
Director, Representative Executive Officer, Executive Vice President, Finance, Treasury, M&A, and IR, and CFO
Number of Company shares owned: 105,131
Number of Phantom Stocks held: 41,368

Shoko Kimijima
Executive Officer, Executive Vice President, Legal, Compliance, and Corporate Audit, and Chief Legal and Compliance Officer
Number of Company shares owned: 2,886
Number of Phantom Stocks held: 8,483

* The number of Company shares and the number of Phantom Stocks held are as of June 1, 2023.

02 STRATEGY

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MEGATRENDS AND THE CURRENT ENVIRONMENT

The world is faced with numerous social issues, ranging from climate change to water and resource shortages. These issues transcend national boundaries and are increasing in complexity. Furthermore, LIXIL's business environment is changing, and our corporate activities are exposed to various actual and potential risks, including heightened geopolitical risk. We are working to minimize the impact of these risks on our corporate activities, while accurately anticipating long-term megatrends, effectively identifying opportunities for future value creation, and implementing strategies as set out in the LIXIL Playbook.

Megatrends

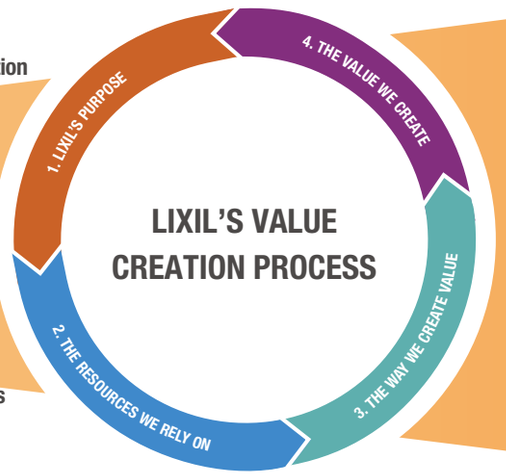
- Climate change
- Water and resource shortages
- Heightened geopolitical risk
- Supply chain disruptions
- Growing global middle class
- Maturing Japanese market
- Accelerating digitalization
- The changing world of work

Opportunities

- **Demonstrate design and technology leadership**
- **Growing worldwide consumer demand for water purification technology and innovative water-saving products and services**
- **Development of platform-based production**
- **Restructure organization to enhance responsiveness**
- **Increased demand for improved sanitation and comfortable housing as disposable income increases**
- **Growth opportunities in the renovation business in Japan**
- **Create business opportunities for transformation**
- **Develop into an innovative organization that attracts a diverse range of highly motivated people**

Risks

- **Environment (climate change, water, resources)**
- **Disasters, accidents, and infectious diseases**
- **Procurement of raw materials**
- **New product development**
- **Competition and product pricing**
- **Information and cybersecurity**
- **Acquisition and development of human resources and promotion of diversity**



Medium-term Targets
p.29



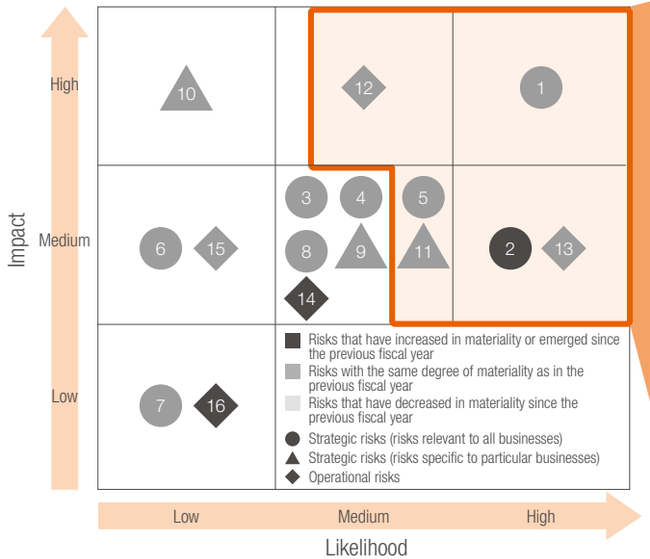
Risks and Opportunities

Principal Risks and Countermeasures p.27

PRINCIPAL RISKS AND COUNTERMEASURES

At LIXIL, in pursuing our purpose, we regularly identify, assess, and respond to risks that may have an impact on business activities based on company-wide criteria and prioritize risks to be addressed. We classify risks into strategic risks and operational risks, formulate and implement countermeasures for addressing each risk, monitor their progress, and make ongoing improvements. In doing so we realize sustainable value creation for our stakeholders. In addition to the guidance and supervision provided by the Board of Directors, members of the Audit Committee, which is comprised of outside directors, conduct hearings and request reports at committee meetings, as well as participate in meetings of the Board of Directors, the Board of Executive Officers, and other committees as observers, in order to exercise supervision and control over the execution of business operations.

Risk Map and Comments



Business risks		Risks relevant to FYE2023
Strategic risks	1	Changes in the economic environment, fluctuations in exchange rates and interest rates
	2	Geopolitics
	3	New product development
	4	Procurement, including raw materials
	5	Environment (climate change, water, resources)
	6	Business restructuring
	7	Collaboration with other companies, corporate acquisitions, and others
	8	Acquisition and development of human resources and promotion of diversity
	9	Sales channels
	10	Brands
	11	Competition and product pricing
Operational risks	12	Disasters, accidents, and infectious diseases
	13	Information and cybersecurity
	14	Intellectual property
	15	Likelihood of deferred asset recovery
	16	More stringent regulations

Business risks	Risks relevant to FYE2023		Risks	Countermeasures
Strategic risks	1	Changes in the economic environment, fluctuations in exchange rates and interest rates	• Impact of fluctuations in global demand and prices • Rising raw material prices, logistics costs, and energy costs • Significant fluctuations in new housing starts • Fluctuations in foreign exchange rates, rising market interest rates	• Timely price optimization • Increase sales in mid- and high-end product markets, enhance renovation market strategy • Structure a stable supply system • Monitor foreign exchange rates • Efficient and stable financing
	2	Geopolitics	• Rapidly rising prices for raw materials, energy and transportation costs, and procurement risks • Logistical supply disruptions and delays • Increased impact from global inflation and policy interest rates • Changes in national policies, laws and regulations	• Diversify suppliers • Restructure regional supply chains • Establish backup production systems • Monitor political situations, policy changes, and other trends
	5	Environment (climate change, water, resources)	• Transition risks resulting from changes in policies, regulations, and markets due to climate change • Response to global water problems • Rapidly rising prices for raw materials and components • More stringent regulations on petroleum-based plastics and wood	• Identify and assess the risks and opportunities of climate change issues, and reflect them in environmental strategies • Efficiently use energy in production activities • Use renewable energy • Reduce environmental impact throughout the supply chain • Research decarbonized manufacturing technologies and product materials • Increase sales of environmentally friendly products
	11	Competition and product pricing	• Loss of competitive advantage due to competitor pricing • Falling market prices due to intensifying price competition	• Differentiate LIXIL with high-value-added products that meet market needs • Improve investment capital efficiency by developing platform-based production • Use platforms to more rapidly launch new products • Offer new value and emphasize value rather than price
Operational risks	12	Disasters, accidents, and infectious diseases	• Suspension of production activities in Japan and/or international markets • Suspension of production and sales among business partners • Workforce contraction due to deteriorating employee health	• Formulate and regularly review business continuity plans • Diversify suppliers and structure rapid recovery systems • Respond to emergency situations • Secure appropriate insurance
	13	Information and cybersecurity	• Business disruptions due to communication network failures • Loss of social trust and significant costs due to personal information leaks	• With the Information Security Committee in place, develop internal regulations and train employees • Update aging core systems • Establish a dedicated team to deal with cyberattacks, constantly monitor unauthorized access, and prepare emergency responses • Enhance cybersecurity • Promote compliance with the EU's General Data Protection Regulation (GDPR)

Please visit our website for more information on LIXIL's strategic and operational risks and countermeasures.
www.lixil.com/en/investor/strategy/risks.html

LIXIL'S IMPACT

Committed to achieving our purpose, generating sustainable growth, and creating value, we aim to improve corporate value by pursuing business activities and growth and by contributing to the resolution of social and environmental issues.

Impact on LIXIL

Increased corporate value

- **ROIC 10%**
- **Core earnings margin** Medium-term target: 7.5% → Long-term target: 10.0%
- **Net interest-bearing debt-to-EBITDA ratio** 3.5 times or less
- **Ratio of equity attributable to owners of the parent to total assets** 35% or more

Diversity & Inclusion

By FYE2030

- Ratio of female directors and executive officers: 50%
- Ratio of female managers worldwide: 30%
- Gender equality in recruiting new graduates in Japan

Diversity & Inclusion p.58

Impact on society

Resolution of social issues

- **Scope 1+2 CO_2 emissions** -50.4%*1
- **Scope 3 CO_2 emissions** -30%*1
- **Ratio of high-performance windows sold for new detached houses** 100%*2 (Japan)
- **Use of recycled aluminum** 100%
- **By 2025 improve access to sanitation for** 100 million people
- **Provide safer and better tasting water**
- **Reduce difficult-to-recycle waste plastics**
- **Ratio of energy- and water-saving faucets and toilets sold** 100% (Japan)
- **Total water savings from water-saving products** 2 billion m^3 per year*3

*1 Compared to FYE2019
*2 By FYE2026
*3 By FYE2025
(All targets are for FYE2031, unless otherwise noted)

Impact Strategy p.47

LIXIL Playbook

Focus	Transform	Grow	Innovate
Divest Non-core Businesses and Simplify Organization	Tackle Inflation and Supply Chain Challenges	Optimize Japan and Drive New Growth / Grow Global Water Business	Embed Robust Environment Strategy / Develop New Core

- **Global Sanitation & Hygiene** — Sanitation & Hygiene for All
- **Water Conservation & Environmental Sustainability** — Zero Carbon & Circular Living
- **Diversity & Inclusion** — Inclusive for All

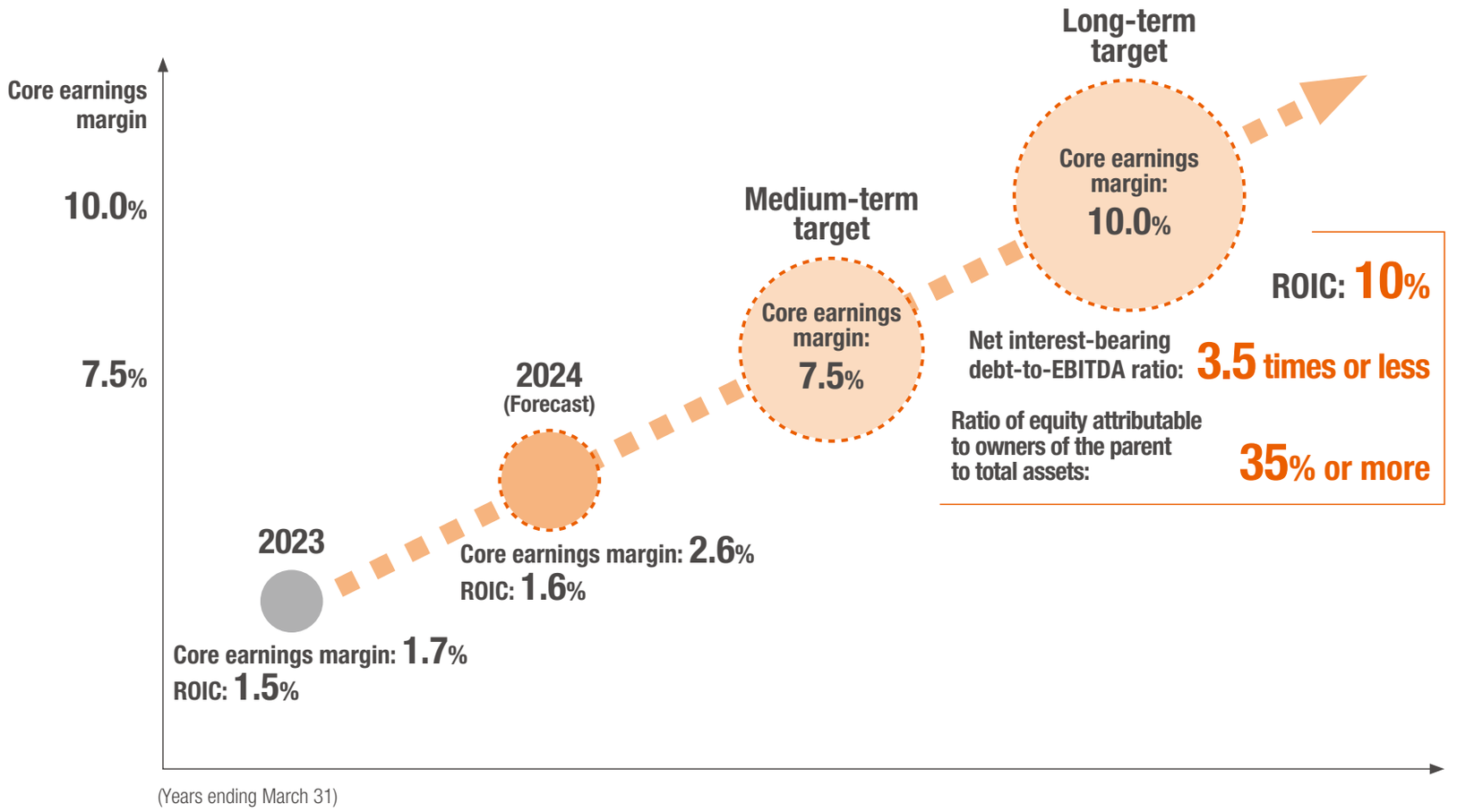
Impact Strategy

MEDIUM-TERM TARGETS

LIXIL has formulated the LIXIL Playbook as a roadmap (management direction) for achieving medium- to long-term targets. LIXIL is steadily implementing the strategies in the Playbook to enhance its competitive advantages and transform into a highly profitable company.

These initiatives require us to respond flexibly to changes in the rapidly evolving business environment of recent years by allocating resources appropriately and at the right time.

LIXIL therefore announces the execution of strategies in accordance with the Playbook as a discrete plan for every fiscal year, and conducts reviews to measure progress and confirm validity.



MANAGEMENT DIRECTION

Any successful team requires a shared vision, achievable goals and a clear strategy. The LIXIL Playbook ensures that everyone in the Company knows what we want to achieve and how to get there. It provides the roadmap for how we will achieve sustainable growth and value creation, and our corporate purpose of making better homes a reality for everyone, everywhere.

Updating the LIXIL Playbook

The Playbook is an evolving document. As our operating environment continues to rapidly change, we have updated our LIXIL Playbook to ensure we stay on course to becoming a sustainable company. Today, we are focused on five key strategic initiatives, including “Embed Robust Environment Strategy” and “Tackle Inflation and Supply Chain Challenges,” which were newly added.

The Foundation of the LIXIL Playbook

Our Impact Strategy, which forms part of the foundation supporting all five strategic initiatives of the Playbook, clarifies LIXIL’s programs to help address some of the most pressing global issues where we can drive positive change. Integrating our Impact Strategy into our business strategy enables us to focus our efforts on securing growth and enhancing corporate value. The strategy, based on three core pillars, represents not just our commitments as a global corporation but is fundamental to how we will improve profitability, enhance brand equity, and create long-term value.

In addition to the Impact Strategy, the foundation of the LIXIL Playbook also covers other fundamental aspects of business including our Global People Strategy, as well as digital transformation, intellectual property strategy, focus on design, governance, risk control and compliance as important constituents of ESG.



KEY INITIATIVES OF THE LIXIL PLAYBOOK

TACKLE INFLATION AND SUPPLY CHAIN CHALLENGES

Supply constraints and the resulting inflationary pressures have proven to be among the most challenging external factors facing LIXIL and our industry. As we saw over the past year, rising cost and supply volatility affect every stage of LIXIL's business, from procurement, manufacturing, and delivery, to retail pricing and the level of consumer demand. The Company's response has therefore been equally multifaceted.

We have taken steps to develop more nimble procurement models, ensuring suitable levels of inventory. Furthermore, we have optimized supply chain operations so manufacturing and logistics bases are closer to their consumer markets, thereby localizing production processes. We have also aligned decision-making processes throughout our sales and operating planning platforms. All these measures aim to ensure a steadier supply at a more predictable level of cost.

Creating a More Resilient and Optimized Supply Chain

While we want to continue an inventory-light business model, having the proper supply of key items in stock can help avoid the need for purchasing at a time of increasingly volatile price spikes. In the Americas, we have shifted from reliance on components from Asia to local procurement within the region. We are also shifting from transporting products from Europe to Asia to producing them within each region. In this way LIXIL is building a more reliable supply chain that reduces the risks of cost volatility.

An additional element is to reduce the number of parts required through greater standardization and to move to more environmentally friendly materials that are today increasingly cost competitive.

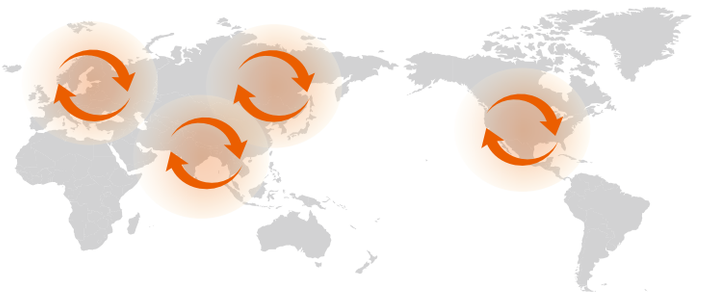
In the face of rising costs we have also moved quickly to optimize prices. This requires solid market knowledge in each of the 150 countries where we operate since price sensitivity differs from one market to another. In Japan we have broken from the traditional model of annual price reviews to a more dynamic pricing model. In every market we want to be ready to meet the challenge of higher costs, but not to be ahead of other brands with price changes that could reduce our competitiveness.

Accelerate Product Differentiation

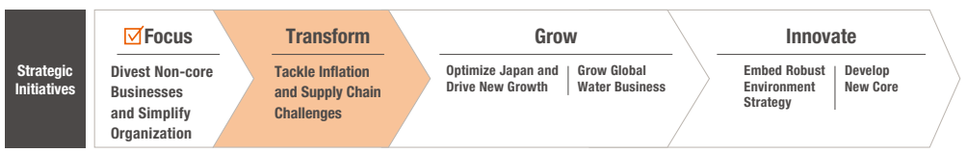
We also believe that the best solution to the issue of rising costs is to focus on more differentiated, high-value-added products. Because commoditized goods are exposed to fierce price competition, they are more heavily impacted by higher input costs. At the same time, such products are vulnerable to price undercutting by our competitors. With higher-value products, we enjoy greater pricing power and higher profitability since the value to the consumer comes from our innovative design and higher functionality rather than raw material inputs.



Restructuring of the transportation network to counter supply chain fragmentation



Localizing procurement and production



OPTIMIZE JAPAN AND DRIVE NEW GROWTH

We have worked to improve the profitability of the Japan business by bringing down fixed costs while implementing price optimization. To achieve sustainable growth and increase profitability, we will focus on capturing the growing demand for home renovations and further strengthening our organizational structure.

Penetration of Dynamic Pricing

In 2021, we set "improve profitability of Japanese business" as a strategic initiative in the LIXIL Playbook. As inflation began to appear in many of our markets, we transitioned from the more conventional annual product price revision to dynamic pricing, enabling us to implement price revisions promptly. Through the implementation of this dynamic pricing, we have improved profitability in the fourth quarter of FYE2023 relative to the same period in the previous year.

However, the risks of a weak yen and geopolitical uncertainties persist, and the business environment remains uncertain. Therefore, we have set out "Optimize Japan and Drive New Growth" as a strategic initiative in our updated Playbook. Capturing the growing demand in the renovation sector will be a key focus in our efforts.

Expanding Renovations beyond Water-related Products to Insulation Improvements

Traditionally, renovation projects have focused mainly on water-related products. However, with an increasing focus on comfort and the need to save energy, other areas of renovation have also shown high potential in the Japanese market. Through high-insulation windows, doors, and walls, we can enhance comfort inside the home both during hot summers and cold winters.

In the field of renovation, we are enhancing our capability to provide a range of insulation improvement plans tailored to the needs of individual rooms or entire houses, moving beyond single window solutions. In the water-related category, we continue to introduce popular product lines, such as dual-cleansing nozzle shower toilets, which greatly enhance cleanliness and hygiene, and the *Navish Hands-Free* faucet.

Our subsidiary LIXIL Total Service (LTS) has developed a business model where they directly undertake renovation work from end users. In addition to physical stores, LTS has established virtual bases in multiple locations to expand its presence.

Launch of the Living Division

To strengthen the foundation of our domestic operations, we launched the "Living Division" in April 2023, integrating LWT Japan's kitchen and bathroom businesses with LHT's interior business. For LIXIL it also means that we can drive improvements in efficiency. By unifying specifications and standards that previously varied across different businesses, we can present simplified, better coordinated proposals while reducing SKUs. We will also transition our business structure to ensure sustainable growth, even in a changing external environment. This includes a full review of our supply chain to reduce costs and enhance transportation and warehousing efficiency. This enables the two businesses to work together more closely by creating a comprehensive program to improve the living environment across the home.



Integrated kitchen, vanity, and interior businesses under the Living Division



Growing demand for high-insulation windows, doors, and walls



GROW GLOBAL WATER BUSINESS

The international water business represents one of our most promising growth opportunities. We have been focusing on enhancing operational efficiency and accelerating the rollout of differentiated products and services through our global brand portfolio. With many of the industry's best-known and most-respected names, coupled with our global reach, we are uniquely placed to provide products to meet various lifestyle needs and preferences, and to tackle the growing problem of ensuring access to clean drinking water and proper sanitation for everyone.

At the core of our strategy is to more fully synergize the distinct capabilities and features of GROHE, American Standard and INAX beyond their home regions. These three industry-leading brands are key growth drivers for international markets.

To capitalize on these opportunities, we have created a set of Key Performance Outcomes (KPOs) for our international business. These include moving beyond the selling of a product into creating an overall bathroom experience, with a focus on effectively managing the end-to-end consumer journey. By doing so, we can embed LIXIL's brands in the minds of consumers and become their brands of first choice. By providing services and more frequent solution touch points through the active life of the product, we can increase our consumer lifetime value.

Under our GROHE brand, we continue to drive innovation such as the revolutionary water-recycling shower GROHE *Everstream*. We are also strengthening our ability to cater to key market segments through the GROHE SPA sub brand, and the GROHE *QuickFix* and the GROHE *Professional* portfolios, each of which powers a differentiated product assortment, tailored to the specific needs of a customer group.

With American Standard, one of the most iconic brands in the industry, we have relaunched and unified the brand across the Americas and Asia to better express empathy and closeness to consumers, together with a new brand claim of "LIFE. LOVE. HOME." This will help strengthen connection to the consumer globally, revitalize consumer experiences, and further build on brand equity.

INAX is also playing an increasingly important role outside its home market of Japan, with its award-winning technology offering potential for greater cross-brand synergy. With the current trends and an enhanced focus on wellness and hygiene products, the shower toilet that is now the standard in Japan is offering new opportunities for this highly popular product in international markets.

In all our markets, higher profitability also relies on how efficient we can be in purchasing and creating simplified production models with a greater use of common components to help achieve lower costs, combined with an agile supply chain that effectively leverages our global footprint. This must be matched with demand creation in untapped segments such as faucets and showers in the U.S. market and GROHE SPA in Europe. Leveraging our global multi-brand portfolio, we are expanding into and filling existing product gaps in higher-margin segments, and thereby enhancing our profit margins.

We have also set targets for sustainability. Our products can play a meaningful role in helping people around the world reduce water and energy consumption. This allows us to offer true differentiated value to end users. Reducing our own carbon footprint is also a critical element, requiring a more agile supply base that can reduce production costs, time to market, and our usage of raw materials.



Exhibition of GROHE SPA at Milan Design Week



American Standard relaunched its brand identity



EMBED ROBUST ENVIRONMENT STRATEGY

In response to the increased urgency around environmental issues including climate change, LIXIL is addressing these issues not only as part of its responsibility as a global company but also an integral part of its business strategy. We actively strive to tackle these challenges, aiming to achieve sustainable growth and create value.

Toward Sustainable Growth and Value Creation

LIXIL established "Zero Carbon and Circular Living" as its Environmental Vision in 2019 and identified three focus areas to achieve this vision. These represent our commitment to providing innovative products and services and reducing the environmental impact of our operations.

Three Focus Areas to Achieve Our Vision

CLIMATE CHANGE MITIGATION AND ADAPTATION
Achieve Net-Zero GHG Emissions through Our Business Operations, Products, and Services

WATER SUSTAINABILITY
Enhance the Environmental Value of Water Resources by Saving, Circulating, and Purifying Water

CIRCULAR ECONOMY
Help Transition to a Circular Economy and Preserve Natural Resources for Future Generations

We have updated our environmental strategy and added "Embed Robust Environment Strategy" to the LIXIL Playbook in March 2023 as a strategic initiative. In addition to reducing the negative impact on the environment of our business activities and product usage, we are accelerating initiatives to generate a positive social and environmental impact. As part of this, we aim to reduce CO_2 emissions in society, provide safe drinking water, and contribute to reducing global plastic waste.

Environmental Vision 2050

ZERO CARBON AND CIRCULAR LIVING

By 2050, LIXIL aims to reduce CO_2 emissions from its business processes, products, and services to net zero and to be a leader in the field of preserving water and limited resources for future generations.

We have set both qualitative and quantitative medium-term goals to clearly outline the actions we will take toward achieving our "Environmental Vision 2050."
Environmental Strategy Update p.52

Strengthening Organizational Foundation to Support Environmental Strategies

To enhance the implementation of our environmental strategies on an organizational level, we have established the "Environmental Strategy Committee." Led by the Chief Environmental Impact Officer (CEIO), the committee oversees the development and execution of the environmental strategies of all business units, corporate departments, and consolidated subsidiaries. With business unit leaders also playing an active role, we have created a structure to more effectively integrate our environmental strategy into our global business strategy.

Providing High-Value-Added Products and Solutions

We are committed to providing products, services, and solutions that generate a significant positive social and environmental impact. One notable example is our circular material *revia*, which was launched in 2022. This innovative material, made by combining waste plastic and wood, has already been commercialized as a pavement material. By utilizing materials that were previously discarded or incinerated, we contribute to reducing CO_2 emissions and promoting resource circulation.

The need for improved sanitary conditions and access to clean water is not limited to developing countries. Even in the United States, communities still face sanitation challenges in areas where toilets are not connected to public sewage systems. LIXIL collaborates with governments, municipalities, private companies, and local communities to develop scalable solutions to address the environmental challenges of untreated wastewater.



Waste plastics | Waste wood | *revia*



DEVELOP NEW CORE

Strong short-term performance is not enough to ensure long-term success. Establishing and growing innovative new businesses is therefore an important part of the LIXIL Playbook. This approach is built on the concept that we must have the entrepreneurial mindset today to see what kind of businesses we can create in 10 years. We must also balance the funding needed for these new businesses of the future with our current capital requirements.

To help spur this innovation, we have been investing in our people in recent years to help create a new cycle of innovation. We introduced the Three Box framework as a common language and have worked with the prestigious Tuck School of Business at Dartmouth College (of the U.S.) to create a training program specifically tailored to our needs. The common language for innovation enables cross-regional collaborations and helps employees with diverse backgrounds work in sync toward the same goal.

Our approach focuses on the needs of consumers and the broader issues facing society as the world faces increasing resource and environmental challenges. From these efforts, we have already seen numerous successful innovations:

● *revia*



In response to the severe issue of global plastic waste, we created a new material consisting of a wide range of plastic waste combined with waste wood. Today, our *revia* line of sustainable building products is already being sold as a pavement material used to create sidewalks. As a result of its lower environmental burden and contribution to resource circulation, we aim to expand our product lineup and promote its use for various purposes.

● *KINUAMI*

A showering system where the hot water coming out of the shower head becomes a dense silk foam at the touch of a switch. Not only does it make showering more enjoyable, it helps those who find it difficult to wash properly during a shower, an important advancement in care for the elderly.

● Clean water

In too many parts of the world, water cannot be consumed from the tap, part of the reason for an explosion in wasteful single-use plastic bottles. Through our proprietary systems, tap water can instead be filtered to become safe to consume.

● GROHE *Everstream*



A water-saving approach to the perfect shower. Through a high-tech recycling system, the amount of water can be reduced by up to 75% while the energy to keep it warm can be lowered by 66%.

While LIXIL's individual brands have strong core products that support growth as part of a portfolio strategy, we have an opportunity to develop a new core for LIXIL that will enable long-term sustainable growth.



OUR FOUNDATION

DIGITAL TRANSFORMATION

LIXIL is committed to embracing digital transformation in order to add value through enhancing the customer experience. In pursuit of this goal, we are actively integrating digital technology into the way we work to produce unique products and services, and improve productivity and engagement.

Transforming Existing Businesses

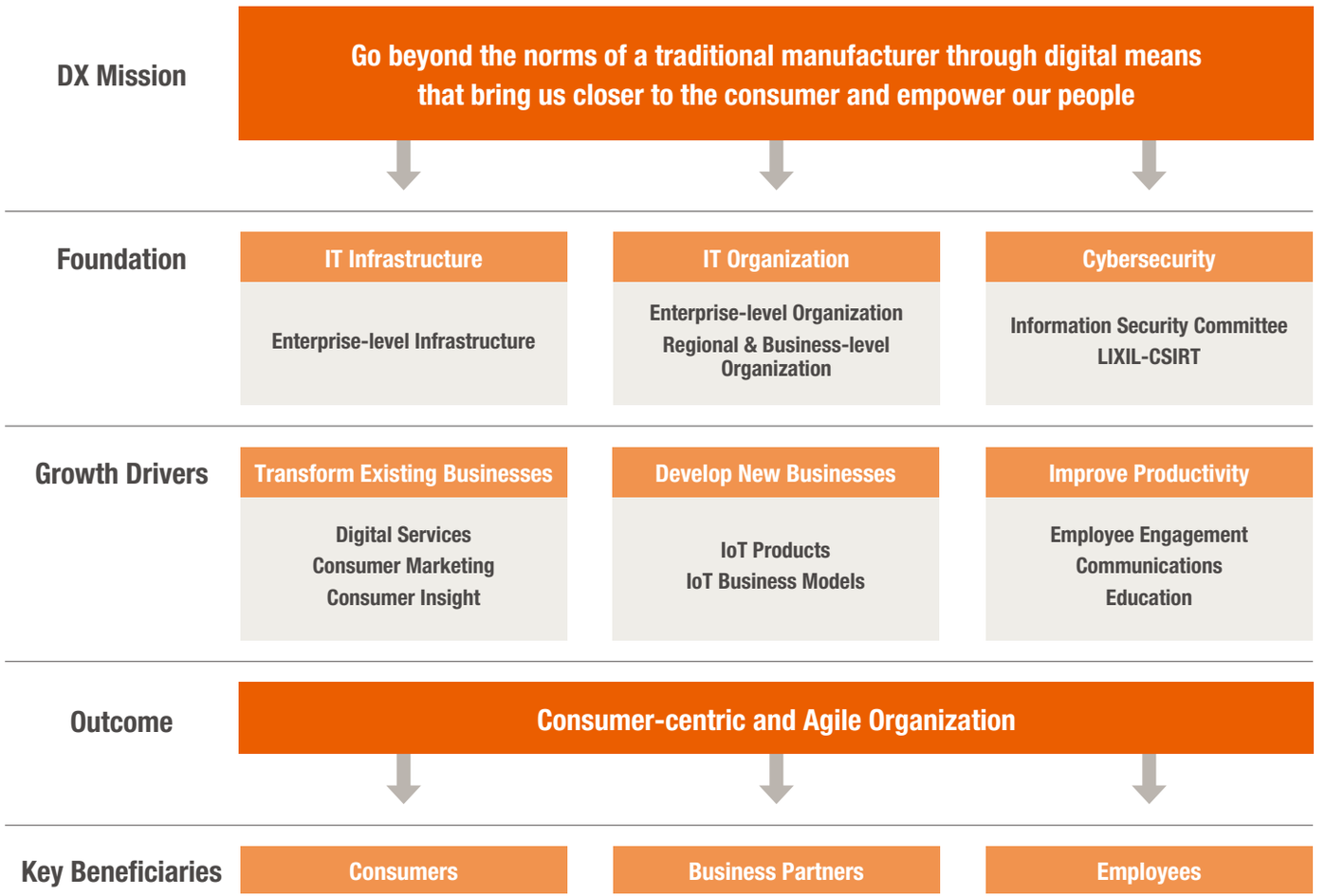
LIXIL continues to define how the industry engages its customers by integrating powerful digital tools into sales and business processes. The LIXIL Online Showroom, which first opened in the spring of 2020 during the COVID-19 pandemic, newly introduced AmiVoice ScribeAssist,* a transcription app utilizing AI voice recognition for hearing-impaired customers and non-Japanese speakers. In addition, the LIXIL Product Plan Recommendation System utilizes AI technology to create a personalized project plan and estimate, including 3D images, thereby simplifying and accelerating the decision-making process for the customer.

* Product of Advanced Media, Inc.

Developing New Businesses

At *Mirai Erabo*, an experimental IoT house that opened in October 2022, we are advancing our smart home system, *Life Assist2*, through open innovation and the integration of products from outside suppliers. Homebuilders who saw the “smart” products in operation were keen to adopt high-value-added items, such as automated electric shutters.

Outside of the housing sector, we have combined sanitation equipment with new advanced features into the *LIXIL Toilet Cloud*, an IoT service that utilizes AI technology to enhance the efficiency of public toilet cleaning. This innovative system, capable of detecting toilet clogs and centrally controlling toilets, has been installed at the recently opened Umekita (Osaka) underground station of West Japan Railway in March 2023. We expect such systems to continue to be adopted more broadly.



Improving Productivity

Through the promotion of digital democratization, LIXIL strives to foster a corporate culture where employees can independently create value using digital tools.

Since the introduction of a no-code development tool in 2021, employees without specialized knowledge have been able to develop their own business tools, with 1,600 apps already in operation. We also have created the LIXIL Data Platform (LDP), a cloud-based data integration platform that enables more data-driven and faster decision-making.

In addition, our digital division has adopted the Scrum methodology to speed up development. Through this, it aims to become an agile organization that aligns with management priorities while offering high levels of autonomy for each team.

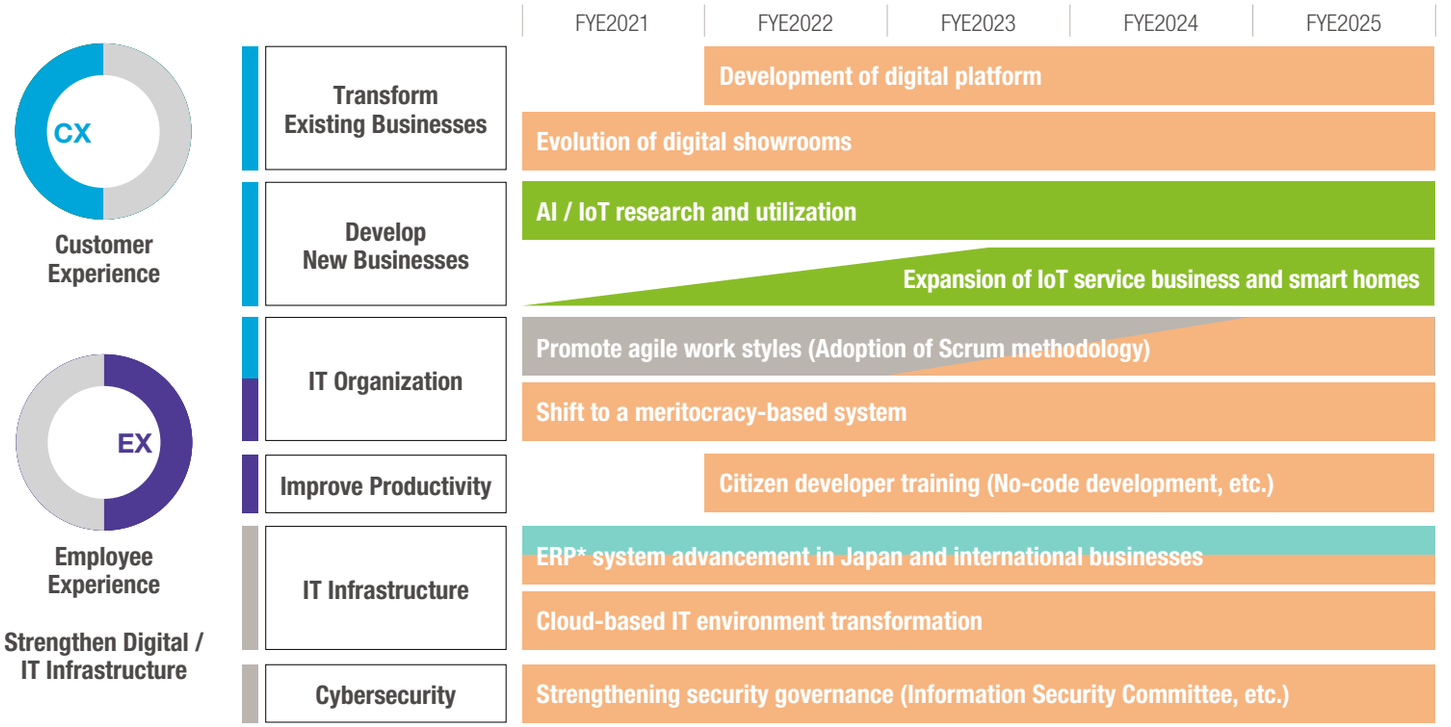
Reinforcing IT Infrastructure

To accelerate international business growth, we are optimizing our global production system and supply chain through the implementation of a globally standardized and centralized system of master data governance that encompasses products and materials data. As part of business continuity planning and to enhance cybersecurity, we are migrating to the cloud on a global basis. Shifting employees' work environment to the cloud will help promote a more collaborative digital workplace, transforming how employees work.

Strengthening Information Security

LIXIL offers flexible work styles that include telecommuting for its employees. This requires additional information security measures to protect personal and confidential information throughout the Company. This work is being carried out by the Information Security Committee under the supervision of the Chief Digital Officer. To ensure that information security is strengthened throughout the Company and that governance related to data protection meets all global standards, we have established two special subcommittees to closely examine the measures needed in each of these important areas.

LIXIL Digital Transformation Roadmap



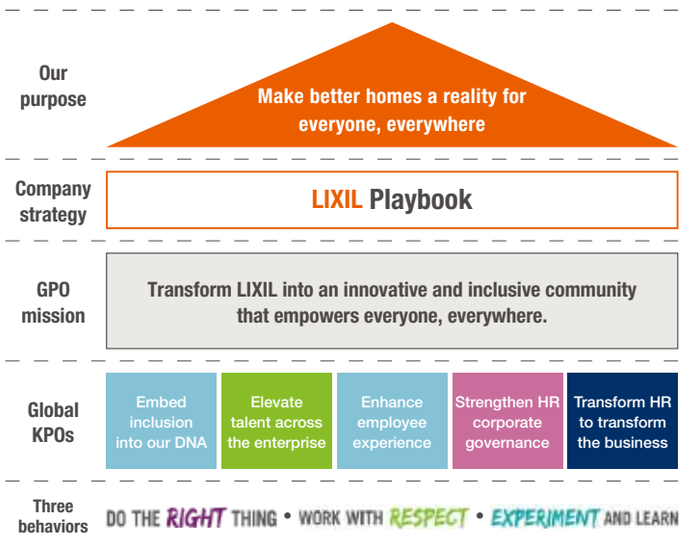
* ERP: Enterprise resource planning

- Focus: Divest Non-core Businesses and Simplify Organization
- Transform: Tackle Inflation and Supply Chain Challenges
- Grow: Optimize Japan and Drive New Growth/Grow Global Water Business
- Innovate: Embed Robust Environment Strategy/Develop New Core

GLOBAL PEOPLE STRATEGY

At LIXIL, we believe that our employees are the driving force behind value creation, and have positioned talent development as one of our long-term priorities. Through our development processes, we focus on training next-generation leaders and employees with the right capabilities to meet our future business needs.

It has been several years since the Global People Organization (GPO) reorganized into a centralized global function and created the GPO mission to "transform LIXIL into an innovative and inclusive community that empowers everyone, everywhere." This mission is realized by the delivery of five KPOs, or Key Performance Outcomes, outlined below. The mission and the KPOs form the building blocks of the GPO Strategy for FYE2022–FYE2025.



I. Embed inclusion into our DNA

We implement holistic, strategic, and leader-led efforts across LIXIL. Our belief is that inclusion is the goal and that diversity will be the result that follows. Everyone from senior executives to managers and employees must understand why Diversity & Inclusion (D&I) matters to LIXIL's future competitiveness and recognize the close relationship between an active D&I culture and an innovation culture.

II. Elevate talent across the enterprise

We will more effectively enable LIXIL's transformation and establish the innovation culture we need to build for our future. Our efforts to build foundational infrastructure for our talent programs will enable us to leverage our global scale through the harmonization of human resource systems and processes.

III. Enhance employee experience

We put people at the heart of our work to enhance the employee experience. This process starts with our effective employee listening program, LIXIL Voice. Direct access to timely data, analytics, and reporting will empower people managers to leverage insights to support the Career Journey of their teams and to proactively discuss their development.

IV. Strengthen HR corporate governance

We are building a stronger model and framework for people data and governance at LIXIL. Key to this is establishing global systems and processes that will enable consistent and transparent reporting and decision-making.

V. Transform HR to transform the business

We redefine the evolving role of HR at LIXIL as the Company's needs evolve and prioritize specific HR competencies that will deliver a world-class employee experience.



Developing Our Talent for the Future

Manager Effectiveness

Effective managers are the linchpin that galvanizes higher performance across large, complex organizations. Managers create the culture in the workplace, define the work, and determine the experience at work. Managers have the greatest influence on an employee's sense of engagement with the company. The old adage remains true: people join companies, but leave bad bosses. To create a working environment in which all employees can work with full flexibility and high engagement, we support career development from two angles: strategic company-driven career development, and self-motivated career development managed by individual employees.

From FYE2022, we launched initiatives that support the ability of management-level talent to bring out the best in their team members, with a particular focus on manager effectiveness. We have been gradually introducing various programs centered around building an inclusive environment, fostering human resources, and empowering teams. As part of the Manager Effectiveness program, we have launched a guidebook for leaders with more practical examples on how best to embed inclusion into our culture. To further enable this, more than 5,000 managers will be invited to attend workshops to practice these workplace inclusive behaviors. In the future, we expect everyone to have a clear understanding of the expertise and skills they need to develop as a manager to support the engagement and development of their team.

Diversity and Inclusion

As one of the key pillars of LIXIL's D&I Strategy, we are committed to achieving gender equity at LIXIL by raising the percentage of female directors and executive officers to 50% and the percentage of female managers to 30%, both by 2030. We have introduced a D&I Dashboard to support each part of the business to monitor their progress toward this goal, tracking the five key KPIs that support gender equity – hiring, promotion, exits, manager ratio, and inclusion score on the LIXIL Voice survey.

Talent Management

To identify critical talent at the enterprise level, LIXIL conducts People & Organizational Development (POD) reviews for our business leaders and executive officers to discuss the succession pipeline, high-potential talent, and female talent nominations. In FYE2023, 732 successors and 156 high-potential talents were identified in LIXIL globally. Furthermore, we are expanding the scope of the list in some business divisions in Japan to search for strong individuals in order to promote the active appointment of young talent.

Through this POD process, we are seeking to create an inclusive working environment, and promote talent development that considers diversity of all types including gender, nationality, race, and career.

This enables us to ensure business continuity even in times of emergency and to build a future-fit system for strategically selecting successors. We devise and implement training plans for each of the listed successors that are designed to build their individual strengths and address development areas by providing business assignments and job transfer opportunities and offering leadership training.

NEXT Program: Developing Next Generation Leaders

We want to create a work environment in which diverse talent can assume important positions, regardless of age. To that aim, we operate our NEXT program, which is designed to identify and develop talented employees with the potential to become the next generation of leaders based on merit-based credentials.

Program Overview

	NEXT Tier 1	NEXT Tier 2
Target	Those recommended by each department as future executive candidates	Those recommended by each department as future managerial candidates
Development goal	Aim to become a general manager, director, or senior manager within three years	Aim to be promoted to a managerial position such as group leader within three years

Based on recommendations from individual departments and assessment results, we design tailored development plans co-created by the selected individual and the manager in charge of their development and accelerate their growth through interesting and challenging stretch assignments tailored to their development plans.

We also offer innovation training to develop the qualities and skills expected of leaders and the mindset needed to achieve innovation.

In addition to conducting regular one-on-one meetings between the participant and the manager in charge of their development, we also provide a mentoring program that encourages their growth through greater awareness and learning from other people's advice, feedback, and support.

Separately, with strong commitment from senior management, including roundtable discussions with the CEO and executive officers, we drive initiatives that accelerate the promotion of program participants.

INTELLECTUAL PROPERTY STRATEGY

We support our business units by acquiring intellectual property assets and managing their intellectual property portfolios. In doing so, we enhance the execution of management strategies, and contribute to the sustainable competitiveness of the company, which are key components of the IP Division's mission.

Three Core Pillars of the IP Division's Mission

Risk Management Structure

To ensure that everyone at LIXIL respects the intellectual property of third parties, the IP Division has implemented a risk management structure that includes conducting prior searches of third-party intellectual property, thereby preventing and eliminating significant risks to the business. For example, the IP Division and business units have incorporated intellectual property risk assessments within the product development process, enabling the IP Division to search, and analyze third-party intellectual property rights during the early stage of product development.

Intellectual Property Management That Protects Differentiated Value

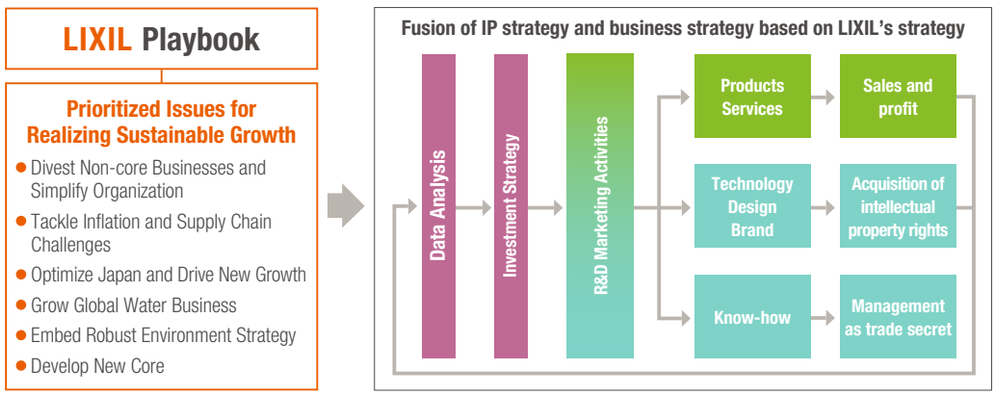
At LIXIL, we develop differentiated products and services to create value for consumers around the world. This requires continuous investment in our technology, design, brand, and other intellectual property, which are important management resources alongside our human capital. To maintain our competitiveness and achieve high profitability over the long term, the IP Division manages the Company's portfolio of IP to protect our intellectual property rights and prevent our differentiated factors which are our source of competitiveness from being imitated by other companies.

Intellectual Property Intelligence

Intellectual property is an important management resource for LIXIL. We utilize an IP landscaping*1 method in our IP analysis and incorporate the results into our management and business strategies. Our strategic initiatives are based on various data analyses, including IP information from IP analysis, so as to avoid risks and ensure competitive advantage in our business.

*1 IP landscaping: Supporting the formulation of management and business strategies by 1) performing an analysis integrating IP information with management and business information and 2) sharing the results of the analysis, including the current overall situation and the future outlook, with top management and the heads of business units





Intellectual Property and Standardization

While LIXIL protects its unique differentiated factors by guarding its intellectual property rights, it also works to achieve industry-wide standardization of advanced technologies that are important for society.*2 These include areas such as antibacterial technology.

*2 To build an environment that helps various businesses enter new markets through the openness of technology and know-how by standardization. One of the measures to maximize Total Addressable Market (TAM: the entire market size that a business may acquire). Reference: Ministry of Economy, Trade and Industry, "Market Formation Guidance," published in March 2022.

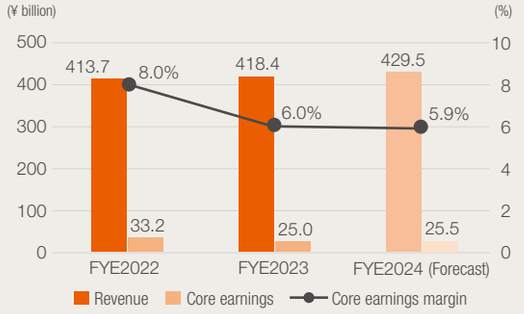
LIXIL'S CORE BUSINESSES

WATER TECHNOLOGY BUSINESS (LWT) — Japan Business —



LWT makes attractive and purposefully designed products for bathrooms and kitchens through powerful global brands such as INAX and GROHE, as well as product brands in Japan such as RICHELLE and SPAGE.

Hiroyuki Oonishi
Executive Officer, Executive Vice President, LIXIL Water Technology (LWT) Japan



Market Environment

- Demand for new housing in Japan forecast to decrease over the medium to long term due to population decline
- Increased renovation needs and more transactions carried out online as a result of the uptake in new working styles

Growth Opportunities

- Increasing need for environmentally friendly materials, reflecting growing awareness of ethical consumption
- Worldwide interest in health and hygiene spurred by the COVID-19 pandemic remains high
- Ongoing demand for greater comfort at home and increasing renovation demand in the post-COVID-19 era
- Evolving needs and lifestyle practices relating to bathing and water purification

Countermeasures

- Create new demand by strengthening renovation and new business strategies
- Achieve both resilience and efficiency in the supply chain through redundancy and end-to-end optimization
- Develop easy-to-install and prefabricated products, and expand installer network
- Continue targeted investment in innovation, brands, and design
- Price products in line with market conditions
- Provide clearly differentiated value
- Strengthen relationships with suppliers based on the Declaration for Building Partnerships

Key Strengths

- Combined global capabilities managed by core global team
- Highly regarded and clearly differentiated house of brands
- Comprehensive product portfolio covering luxury to mass-market segments
- Extensive nationwide sales and distribution network in Japan
- Strong cooperative structure with suppliers

Risks

- Decrease in new housing construction in Japan
- Further increases in human resources costs and logistics, material, and energy prices
- Deterioration of the component procurement environment
- Supply chain disruptions
- Shortage of skilled labor

Strategy

- Expand sales and accelerate development of health and hygiene-related products
- Respond to lifestyle changes by expanding sales of renovation products and growing new businesses
- Leverage digital platforms to expand reach of sales channels
- Enter profitable market segments and gain market share by leveraging brand, product, and service strengths
- Create more sustainable products and materials
- Further collaboration between LHT and LWT Japan

Progress on Major Initiatives

Addressing Diverse Bathing Needs

How people choose to bathe is diversifying, and LWT Japan has strengthened its lineup so that users can choose the bathroom and shower that best suits them. In May 2022, we began general sales of the *KINUAMI U* foam shower, which dispenses warm and silky foam. In June 2022, we launched the *Body Hug Shower*, which is designed for user comfort. In addition, in April 2023 NITTO CERA Corporation (a wholly owned subsidiary of LIXIL Corporation) began general sales of our U-shaped showerhead *SHIN-ON*, which wraps the body in hot water from all angles. *SHIN-ON* features improved design and enhanced usability and cleanability based on user feedback from crowdfunding supporters of *KINUAMI U*. As a result, it was highly acclaimed in Good Design Award 2022, where it placed among the Good Design Best 100.



Decorative and Functional Tiles for a More Colorful Lifestyle

Before 1922, ceramic wall and floor coverings and other similar products were known by many different names in Japan, but that year they came to share the name “tile” (an English loanword), making 2022 the 100th anniversary. April 12 has been dubbed “Tile Day,” and in commemoration of the anniversary the entire domestic tile industry worked to communicate the appeal of tiles through a variety of projects. LIXIL held a roadshow exhibition titled Japanese “Tile”—A Century of Beauty and Utility at INAX MUSEUMS, and embarked on a project to collect and recycle titles as art. We have also launched *Art Brut Ecocarat* tiles featuring artworks by neurodivergent artists contracted to Heralbony Co., Ltd. By paying license royalties out of the product sales revenue to the artists, we aim to create new revenue streams for them and create an inclusive society in which everyone can play an active role, in collaboration with Heralbony Co., Ltd.



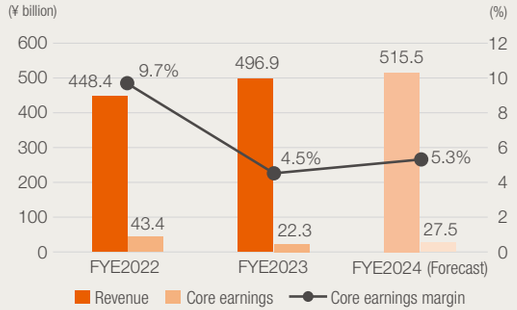
LIXIL'S CORE BUSINESSES

LIXIL INTERNATIONAL WATER TECHNOLOGY BUSINESS



An unparalleled portfolio of brands, agile manufacturing capability, and innovation continue to drive LIXIL's global growth. With a clear strategy in place, we are well-positioned to grow sustainably in international markets.

Bijoy Mohan
Executive Officer, Executive Vice President, LIXIL International



Market Overview

- Targeted water technology market comprises bathroom equipment products such as faucets, showers, bathing and toilets, as well as kitchen faucets and drinking water systems
- Water technology market worth approx. ¥8 trillion and forecast to grow at an attractive CAGR of +4%
- Growth fueled by secular demographic, individualization, and sustainability trends
- Go-to-market characterized by strong distribution partnerships across multitude of professional and retail channels

Key Strengths

- Truly international market coverage with significant sales in more than 150 countries across the Americas, EMEA, APAC, and Greater China
- Highly regarded and clearly differentiated house of brands that can fill product gaps in each region
- Comprehensive product portfolio covering luxury to entry segments
- A global supply chain and production footprint
- Strong innovation pipeline with focus on enhancing consumer experience and sustainability
- Award-winning in-house design team

Growth Opportunities

- Increased demand for sustainable products due to heightened environmental awareness, cost of energy, and water scarcity
- Design, colors, and finishes to leverage the individualization and personal home spa themes
- Growing demand for solutions that improve health, hygiene, and well-being and allow for aging in place
- Increasing need for easy-to-install sanitary products or inclusion of installation services

Strategy

- Expand profitable product categories and fill product gaps in each region by leveraging the multi-brand portfolio
- Lift the average sales price by providing innovative, high-value, and differentiated products and services
- Enhance channel strategy according to each region's unique needs
- Attract consumers early in their purchase journey and enhance consumer experience
- Strengthen market segmentation, delivering on specific needs and wants of each segment
- Reduce the environmental footprint of products and services, as well as business operations
- Strengthen global innovation platforms utilizing technologies within LIXIL

Risks & Countermeasures

1. Further increase in material and labor costs
- Timely price adjustment and mix optimization
- Focus on mid- to high-end products
- Switch to alternative materials

2. Supply chain challenges
- Strengthen nearshoring and redundancy in supply chain
- De-risk external supply securing multi-sourcing
- Complexity reduction, e.g., component standardization
- Back up production plan and cost variabilization

3. Commoditization of products
- Develop innovative, differentiated, and high-value-added products and services
- Enhance consumer journey and customer experience to cultivate brand affinity and loyalty
- Build and expand repeat sales businesses

4. Skilled labor shortages
- Develop easy-to-install and prefabricated products
- Nurture the next generation of talent among installers

Progress on Major Initiatives

New American Standard Brand Identity: Strengthening Connection to Consumers

American Standard is a household name in North America, with a rich history of nearly 150 years. With a consumer-first mindset fueled by the desire to create a unified global brand experience and connect with Millennial homeowners, American Standard has embarked on a total brand refresh across all consumer and customer touchpoints. Foundational to the rejuvenated brand expression are the American Standard brand values – Dependable, Inviting and Pioneering – brought to life via the brand claim of "LIFE. LOVE. HOME." and expressed through signature design elements that differentiate it from GROHE and INAX.

The new brand identity has already begun its rollout in both the U.S. and Asia. In November 2022, the modernized and more consumer-friendly U.S. website and social media handles were launched. This was followed by an unveiling of the visual identity in APAC at the American Standard Trade Event in Bangkok, Thailand in February 2023. The brand's visuals and colors signify love, warmth, and approachability, driving a closer emotional connection with our consumers. Under this new identity, American Standard introduced the *Loven Collection* in Asia, designed with a cohesive aesthetic and ensuring a polished and stylish look for any bathroom. It features a compact footprint, making it a perfect match for urban residential projects. Later in 2023, the new Aspirations bath collection will be introduced in the U.S., providing beautiful, functional, and convenient features which maximize space and convenience. From products, packaging, communications, and customer engagement, the new American Standard brand will enhance the entire consumer journey and customer experience to cultivate brand affinity and inspire people to create a home they will love every day.



Established a new brand identity for American Standard with signature design elements

Acquisition of Basco: Expanding Offerings for Full Showering Solutions

We have committed to delivering consumer-centric solutions that simplify the purchasing experience. In December 2022, we acquired Basco, a U.S.-based shower door company, and have made significant progress in integrating the company into the LIXIL family. These efforts have created new synergy opportunities for strengthening and expanding our U.S. sales and distribution channels. The move, in line with our LIXIL Playbook strategy to look for market segments with unmet demand, helps to supercharge our U.S. efforts, making us the fourth-largest player in this product segment.

Just as importantly, the strategic acquisition enables us to expand our comprehensive kitchen and bath portfolio in the Americas and take consumers on a new purchase journey with full showering and bathroom solutions. This represents another step forward in our drive to move beyond commoditized individual sales of goods into conceptualized suites of products. It also enables us to attract consumers early in their purchase journey and enhance the consumer experience. We are confident that these initiatives are perfectly timed to catch the wave of increased home renovation demand for 2023.



Acquired Basco, a major shower door company

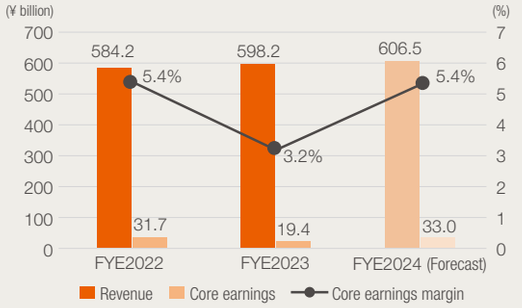
LIXIL'S CORE BUSINESSES

HOUSING TECHNOLOGY BUSINESS (LHT)



LHT will create new value through innovation, and make better homes a reality while reducing the environmental burden through the products it provides to customers in Japan and the rest of Asia.

Satoshi Yoshida
Executive Officer, Executive Vice President, LIXIL Housing Technology (LHT) Japan



Market Overview

- Demand for new housing in Japan forecast to decrease over the medium to long term and building material manufacturers expected to shift focus to the home renovation sector, due to population decline
- Increased demand for energy conservation and renewable energy due to the global energy crisis
- Growing interest in decarbonization in light of efforts to achieve carbon neutrality by 2050
- Growing interest in safe, secure housing and new ways of living in response to recently increasing natural disasters
- Building materials markets, particularly in Asia, continue to expand as a result of medium- to long-term economic, population, and income growth

Key Strengths

- Leading market share in residential sash and door, and exterior product market sectors in Japan
- Leadership in low-carbon, sustainable materials for housing and buildings
- Extensive nationwide sales and distribution network in Japan
- Wide range of products and product categories, enabling complementary design for the entire home
- Innovative product development made possible through advanced technologies and global design capabilities
- Simple organizational structure that facilitates the rapid development, manufacture, and sale of products
- Implementation of platform-based production in each business division
- Rapid creation of new businesses by applying the lean startup method
- Strong cooperative structure with suppliers

Growth Opportunities

- Growing demand for environmentally responsible products, reflecting growing awareness of ethical consumption
- Increasing interest in high-performance housing, driven by government subsidy projects and more stringent energy-saving standards
- Growing demand for new products and services suitable for Japan's aging population
- Growing market for highly affluent consumers
- Increasing need for differentiated products due to population growth and rising income levels in Asian markets

Risks

- Decrease in new housing construction in Japan
- Further increases in human resources costs and logistics, material, and energy prices
- Deterioration of the material procurement environment
- Supply chain disruptions
- Increase in operating costs in conjunction with environmental measures
- Shortage of skilled labor

Countermeasures

- Create new demand by strengthening renovation and new business strategies
- Bring environmentally friendly products and services to market faster
- Review and improve procurement policy
- Price products in line with market conditions
- Provide differentiated high added value
- Strengthen supply chain management
- Raise energy efficiency at production and distribution bases
- Strengthen relationships with suppliers based on the Declaration for Building Partnerships

Strategy

- Develop differentiated high-value-added products and business models
- Expand market share in net zero energy houses and buildings (ZEH/ZEB)
- Provide products and services that meet the needs of niche markets including the senior and pet markets
- Respond to lifestyle changes by expanding range of products and materials as well as sales in home renovation market
- Develop products to meet each market's needs, utilizing technologies and resources from Japan
- Increase number of production facilities in the Asia region and strengthen sales structure
- Further collaboration between LHT and LWT Japan

Progress on Major Initiatives

Further Enhancing Housing Window and Door Insulation Performance

Rising electricity bills have become a social issue and there is increasing concern about reducing energy consumption at home. The Japanese government has incentivized decarbonization by launching a ¥100 billion subsidy project, one of its largest ever, to promote energy conservation in housing renovation. LHT has been responding to such trends by continuously enhancing its window and door lineup. We launched *Replus High-Insulation General-Purpose Frame*, which can be used to replace an existing window with a high-performance triple-glazed window in one day. In products for new-build detached houses, we have added the industry's first triple-glazed hybrid fire door to the *TW* hybrid window product line. By continuing these and other initiatives, we will work toward our target of high-performance specifications accounting for a 100% ratio of high-performance windows sold for new detached houses by FYE2026.





Business Growth in the Asia Region

Asia is home to roughly 3.4 billion people, and its economies and markets are only expected to continue growing. Demand in Asian markets for Japan-made quality is increasing with the expansion of the high-income and middle-income consumer segments. LHT has production sites in China, Vietnam, and Thailand, thereby establishing the foundations for growth in the region in terms of supply. In November 2022, we began local manufacture of window sashes for the Indian market and have since been constructing a system for rapid product supply. We are expanding our local dealer network, which currently numbers 95 dealers with 58 showrooms throughout India. In January 2023, we added 4.5-meter-tall large-aperture windows and 3.5-meter-tall corner sliding doors to the lineup for our *GRANTS* high-end window series. Meanwhile, in Indonesia we are ramping up activities targeting business growth and are strengthening our supply framework, including through an alliance agreement with a local aluminum materials company. Moving forward, we plan to continue steadily expanding our business in the Asia region.



IMPACT STRATEGY

LIXIL's purpose is to make better homes a reality for everyone, everywhere: this is the positive impact we have and how we can be a force for good in a rapidly changing world, from the products we make, to the way we work for today and tomorrow. LIXIL's Impact Strategy outlines three strategic pillars that can have a greater impact in resolving global issues: Global Sanitation & Hygiene, Water Conservation & Environmental Sustainability, and Diversity & Inclusion.

Commitment

LIXIL's purpose is to make better homes a reality for everyone, everywhere.
We do this through actions and innovations designed to create positive impact in the world, today and tomorrow.

Three Strategic Pillars

GLOBAL SANITATION & HYGIENE

Sanitation and Hygiene for All

We innovate viable products, solutions, and business models to elevate standards of living through improved sanitation and hygiene.

WATER CONSERVATION & ENVIRONMENTAL SUSTAINABILITY

Zero Carbon and Circular Living

We promote the responsible use of energy, water, and natural resources. From our operations and throughout our product lifecycle, we minimize our ecological footprint and scale innovation to help our partners and consumers protect the environment today and for generations to come.

DIVERSITY & INCLUSION

Inclusive for All

We promote diversity and inclusion, starting with building an equitable workplace. By leveraging the knowledge and perspectives of our diverse employee base and together with stakeholders, we stimulate innovation and collaboration that enables everyone to live more comfortably and healthily and reach their full potential.

Metrics and Targets

- **Global Sanitation & Hygiene**
  Improve sanitation and hygiene for **100 million people** around the world by 2025

- **Climate Change Mitigation and Adaptation**
  - Scope 1+2 CO_2 emissions **-50.4%***1
  - Scope 3 CO_2 emissions **-30%***1
  - Ratio of energy- and water-saving faucets and toilets sold (Japan) **100%**
  - Ratio of high-performance windows sold for new detached houses (Japan) **100%***2

- **Water Sustainability**
  - Water use efficiency **+20%***1
  - Total water savings from water-saving products **2 billion m^3/year** *3

- **Circular Economy**
  - Improved waste recycling rates **90%***2
  - Use of recycled aluminum **100%**

- **Diversity & Inclusion**
  By FYE2030
  - **50:50** for Board & Executive Officers
  - **30%** female managers across LIXIL
  - Maintaining **gender parity** in new graduate recruitment (Japan)

*1 Benchmark: FYE2019 *2 By FYE2026 *3 By FYE2025 (All targets are for FYE2031, unless otherwise noted)

Material Issues

Priority

- Global Sanitation & Hygiene
- Climate Change Mitigation and Adaptation
- Water Sustainability
- Circular Economy
- Diversity & Inclusion
- Environmental Impact of Product Lifecycle
- Environmental Management

- Conservation of Biodiversity
- Talent & Development
- Product Safety
- Customer Satisfaction
- Employee Safety & Wellbeing
- Ethics & Integrity
- Human Rights
- Supply Chain Management
- Corporate Governance
- Stakeholder Engagement
- Information Security
- Tax Transparency
- Responsible Marketing & Advertising

LIXIL'S MATERIAL ISSUES

LIXIL has identified material issues that we and our stakeholders consider to be of the highest importance, and we are working to resolve these issues.

Positioning of the Material Issues and Our Approach

At LIXIL, we pursue our corporate purpose to "make better homes a reality for everyone, everywhere." To that end, we have determined material issues that we, our stakeholders, and society in general consider to be of the highest importance for achieving our company's sustainable growth and improving corporate value for driving progress on sustainable development. We are working to resolve these issues through our business activities while monitoring the progress against our goals.

LIXIL's material issues are determined by selecting and evaluating issues from both a risk and opportunity perspective using the following process, taking into consideration LIXIL's Purpose, Value Creation Process (VCP), management direction, Impact Strategy, stakeholder needs and expectations as well as current social circumstances and issues, via the process described on page 49. We review these material issues to accommodate any changes in LIXIL's immediate environment or society at large.

Three Pillars of Our Impact Strategy



Global Sanitation & Hygiene



Water Conservation & Environmental Sustainability



Diversity & Inclusion

Material Issues

Priority

In August 2023, we plan to publish a data book on our website with a third-party assurance of these figures.
www.lixil.com/en/impact/data/performance.html

Material issues	Target year	Goals and targets (quantitative targets only)	FYE2023 results
Global Sanitation & Hygiene	By FYE2025	Improve sanitation and hygiene for 100 million people around the world by 2025	Approx. 45 million people
Climate Change Mitigation and Adaptation	By FYE2031 *6 By FYE2026 *7 By FYE2025	• Scope 1+2 CO_2 emissions: -50.4%*2 • Scope 3 CO_2 emissions: -30%*2 • Ratio of energy- and water-saving faucets and toilets sold (Japan): 100% • Ratio of high-performance windows sold for new detached houses (Japan): 100%*6	• -29.9%*1 • -11.9% (FYE2022) • Faucets: 92.2%*3 Toilets: 99.2%*4 • 90%
Water Sustainability		• Water use efficiency: +20%*2 • Total water savings from water-saving products: 2 billion m^3/year*7	• +16.0%*1 • 1.3 billion m^3 (FYE2022)
Circular Economy		• Improved waste recycling rates: 90%*6 • Use of recycled aluminum: 100%	• 88.1%*1 • 74%*5
Environmental Impact of Product Lifecycle		Included in the above	—
Environmental Management		—	—
Diversity & Inclusion	By FYE2030	• 50:50 for Board & Executive Officers • 30% female managers across LIXIL • Maintaining gender parity in new graduate recruitment (Japan)	• 31.3% • 17.5%*1 • 34.1%

*1 As of June 2023. Figures not yet finalized. *2 Benchmark: FYE2019 *3 Excluding products not intended for energy- and water-saving faucets, such as those for exclusive use of hot water filling or full-body bathing *4 Excluding apartment buildings *5 A6063

Other Material Issues

- Conservation of Biodiversity
- Talent & Development
- Product Safety
- Customer Satisfaction
- Employee Safety & Wellbeing
- Ethics & Integrity
- Human Rights
- Supply Chain Management
- Corporate Governance
- Risk Management
- Stakeholder Engagement
- Information Security
- Tax Transparency
- Responsible Marketing & Advertising

Material Issues Selection

In FYE2021, we reviewed the material issues selected in FYE2016 and newly set 20 material issues based on the process below. From FYE2023, we expanded our material issues to include “Conservation of Biodiversity.” We consider biodiversity to serve as the common foundation for our three focus areas in the environment domain and believe that it is vital to address the issue of biodiversity in order to ensure the sustainable growth of LIXIL. Company-wide efforts that include sustainable raw material procurement and the effective use of resources will contribute to biodiversity.

We determined the priority of our material issues in terms of degree of risk as weighted by the criteria of ESG-rating organizations and their impact on LIXIL, our stakeholders, and society at large.

LIXIL prioritizes areas that significantly impact its stakeholders and society at large and where it can make a considerable contribution to resolving relevant issues by leveraging its strengths and taking proactive measures. We also prioritize areas where we need to strengthen our initiatives based on stakeholder needs. “Priority” material issues are deeply related to the three pillars of our Impact Strategy, and we will continue to advance various initiatives with a focus on these material issues. In FYE2023, we also changed the priority levels of our material issues from “priority,” “high,” and “medium” to only “priority” in order to clarify the display of priority items.

Material Issues Selection Process

Selection of the issues
IDENTIFY

- Selection of candidate issues based on the evaluation criteria by ESG-rating organizations (DJSI and MSCI), as well as essence from global standards such as SASB, GRI, and SDGs
- Definition of the impact of each issue based on the weighting of evaluation criteria

Discussion of the issues
DISCUSS

- Discussion by Corporate Responsibility Committee,* focusing on candidate issues
- Interviews with business units and corporate functions

Detailed evaluation of the issues
REFINE

- Detailed evaluation of the selected issues with executive officers
- Selection of key issues and prioritization based on the above feedback and the impact on society and LIXIL
- Approval at Board of Executive Officers

Following the above process, we will continuously review the material issues.

* From April 2023, the Corporate Responsibility Committee has been replaced by the Impact Strategy Committee.

GLOBAL SANITATION & HYGIENE

Promote and enable access to safe and hygienic sanitation practices, especially for women and girls, while protecting children from harmful infectious diseases.

Our Strategy

An estimated 3.6 billion people lack access to safely managed sanitation services, and approximately 494 million people regularly defecate in the open. Roughly 2.3 billion people lack basic handwashing facilities at home. The current rate of progress would need to be quadrupled in order to achieve the SDG 6 (Clean water and sanitation) by 2030.*

* *Progress on household drinking water, sanitation and hygiene, 2000-2020*, WHO/UNICEF Joint Monitoring Programme

We have set out to improve sanitation and hygiene for 100 million people around the world by 2025 through the introduction of innovative and affordable toilet and hand hygiene solutions. SATO's affordable solutions are complemented by value-added products that create market demand for products higher in the pyramid. The SATO Advisory Board oversees the strategies and initiatives designed to help resolve global hygiene issues.

SATO's Diverse Product Portfolio

The SATO business, which celebrates its tenth anniversary in 2023, has recrafted its brand concept into "A BETTER LIFE. EVERY DAY." and expanded its product portfolio to more than 40 items. In addition to developing the *SATO* simple toilet for emerging markets and the low-cost *SATO Tap* handwashing solution, we also started selling the *SATO Slab* toilet and the *Universal I-Trap* toilet, which are compatible with a variety of plumbing conditions, in FYE2023. SATO products are currently manufactured and sold in six countries in Asia and Africa, and the number of units distributed reached 1 million for four consecutive years. An estimated 7.5 million units have been distributed to 45 countries, contributing to better sanitation for an estimated 45 million people. (As of April 2023)



Establishing Sanitation Markets by Multiple Approaches

For our SATO business, we strive to nurture regional business and employment through our Make-Sell-Use business model that seeks to build local production and marketing systems and develop local human resources. We also conduct various hygiene-related educational activities in different locations, including our School Toilet Enhancement Program (STEP) in Africa. We aim to use these initiatives to consistently improve sanitation environments and establish a sustainable sanitation market.

Strengthening Partnerships to Maximize Impact

LIXIL is working to strengthen our collaborations with various partners to maximize impact. In addition to our existing MAKE A SPLASH! global partnership with UNICEF and our five-year Partnership for Better Living (PBL) program with the United States Agency for International Development (USAID), we launched a new partnership with FINISH Mondial to provide sanitation solutions that involve financial services in FYE2023. We also established LIXIL Public Partners (LPP), a new organization, to strengthen and accelerate the development of public-private partnership models in the field of global water and sanitation, starting with trial projects in the U.S.



WATER CONSERVATION & ENVIRONMENTAL SUSTAINABILITY

Conserve energy, water, and other natural resources utilized in and by LIXIL products and services across the value chain from procurement through production, distribution, end use, and product disposal.

Our Strategy

Buildings account for about 28% of the world's energy-related CO_2 emissions, with the residential sector alone accounting for 17%.*1 Due to the increase in global population, total household use of water has increased six-fold since the 1960s.*2 More than 40% of the world's population is expected to experience water stress by 2050 due to the depletion of global water resources.*3 Indeed, in 2020, 2 billion people did not have access to safely managed drinking water.*4 Furthermore, global resource consumption is expected to more than double by 2050.*1

Against this backdrop, we have designated Water Conservation & Environmental Sustainability as one of the strategic pillars of our Impact Strategy and positioned the six areas detailed below as material issues. We added conservation of biodiversity to the list of material issues in FYE2023 because this is an issue that needs to be addressed in order to ensure sustainable growth for LIXIL.

*1 UNEP
*2 World Resource Institute
*3 Indiatimes
*4 UNICEF

- **Climate Change Mitigation and Adaptation**
- **Water Sustainability**
- **Circular Economy**
- **Environmental Impact of Product Lifecycle**
- **Environmental Management**
- **Conservation of Biodiversity**

The LIXIL Environmental Vision 2050 declared a commitment to Zero Carbon and Circular Living. By 2050, we aim to achieve net-zero carbon emissions and preserve water and natural resources in operations, housing, and lifestyle solutions for future generations to become a leading company in environmental sustainability. Among the material issues listed above, we set Climate Change Mitigation and Adaptation, Water Sustainability, and Circular Economy as focus areas for realizing the vision. As a springboard for promoting these focus areas, we have been striving to reduce environmental burden across the product lifecycle and to strengthen our company-wide environmental management. We are also working to conserve biodiversity, which is the common foundation for the three focus areas.



ZERO CARBON AND CIRCULAR LIVING

CLIMATE CHANGE MITIGATION AND ADAPTATION
Achieve Net-Zero GHG Emissions through Our Business Operations, Products, and Services

WATER SUSTAINABILITY
Enhance the Environmental Value of Water Resources by Saving, Circulating, and Purifying Water

CIRCULAR ECONOMY
Help Transition to a Circular Economy and Preserve Natural Resources for Future Generations

Environmental Governance

We are strengthening company-wide management to reduce environmental risks that we seek to address in the LIXIL Environmental Vision 2050 and expand the environmental benefits that we offer to society. LIXIL has established a governance system in which the Board of Directors oversees the entire sustainability process. We have also established an Environmental Strategy Committee (ESC), chaired by the Chief Environmental Impact Officer (CEIO) who is appointed by the Board of Executive Officers. At regular meetings held at least once a quarter, the ESC formulates and implements environmental strategies, including determining rules and policies relating to environmental governance, deliberating and deciding measures to address risks and opportunities due to climate change and other environmental issues, and managing and monitoring company-wide environmental targets. The details of the debate and any resolutions are reported to the Impact Strategy Committee. Decisions on matters of significance or special importance are elevated to the Board of Executive Officers for discussion and approval, and then elevated to the Board of Directors for discussion and oversight.

Furthermore, in addition to establishing the LIXIL Environmental Sustainability Principles as a guideline for all employees and senior managers, including directors and executive officers, we are also working to strengthen our environmental governance through internal environmental audits, employee education, and internal evaluation systems.

ENVIRONMENTAL STRATEGY UPDATE

We updated our strategy and formulated medium-term targets in FYE2023 to help further accelerate initiatives designed to achieve our Environmental Vision 2050.

Three Phase Approach

Through the updated strategy, LIXIL aims not only to fulfill its corporate responsibilities, but also to create new value, and maximize the impact of its business. With that in mind, we have divided our three focus areas into three phases: Our Operations, Our Value Chain, and Expanding Our Impact, and have formulated a comprehensive strategic approach and medium-term targets for each of these phases. Through our Environmental Vision 2050, we aim to make a difference in the lives of people around the world and contribute to a better and brighter future.

1. Our Operations:

Business processes that include activities at our production sites, offices, and sales bases, and involve our employees and residents in the surrounding areas.

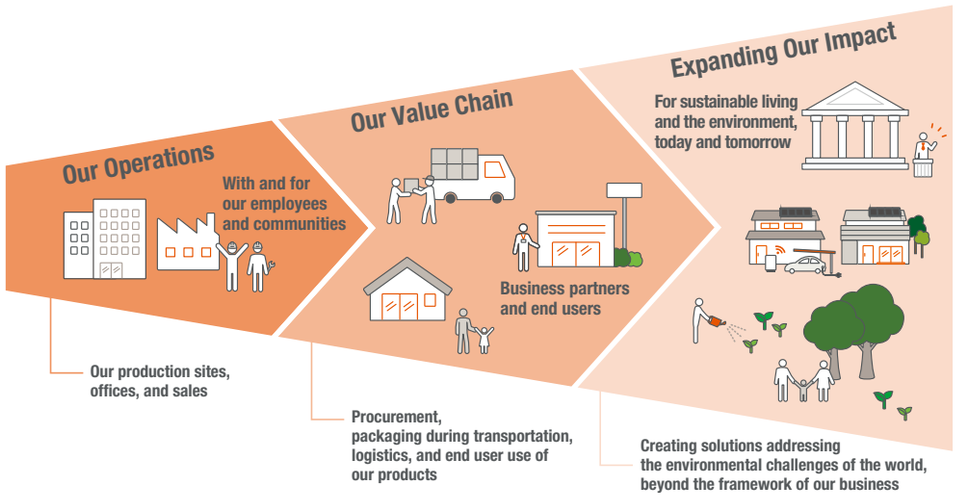
2. Our Value Chain:

Our value chain refers to a series of processes including activities related to products and services that we procure, such as mining and processing of raw materials, as well as activities related to products and services that we sell, such as packaging for transportation, logistics, and end use of our products. This involves interaction with external stakeholders, such as our business partners and end users.

3. Expanding Our Impact:

This goes beyond the production and use phase of our products in the value chain, and extends to providing solutions that address the environmental challenges of the world. It also means contributing to the future of the planet by going beyond the framework of our business.

In each phase of the three focus areas, we set the following medium-term targets to promote initiatives.



Medium-Term Targets

	OUR OPERATIONS	OUR VALUE CHAIN	EXPANDING OUR IMPACT
Climate Change Mitigation and Adaptation	Scope 1+2 CO_2 emissions **-50.4%***1	Scope 3 CO_2 emissions **-30%***1	Ratio of energy- and water-saving faucets and toilets sold **100%** (Japan) Ratio of high-performance windows sold for new detached houses **100%***2 (Japan)
Water Sustainability	Water use efficiency **+20%***1 Reduce water use at water-scarce sites	Total water savings from water-saving products **2 billion m³** per year*3	Provide safer and better tasting water
Circular Economy	Improved waste recycling rates **90%***2	Promote use of recycled and renewable materials Use of recycled aluminum **100%** Reduce single-use plastics in packaging Enhance resource efficient products and solutions Build take-back systems for 'product to product' use	Reduce difficult-to-recycle waste plastics

*1 Benchmark: FYE2019 *2 By FYE2026 *3 By FYE2025 (All targets are for FYE2031, unless otherwise noted)

CLIMATE CHANGE MITIGATION AND ADAPTATION

We are promoting company-wide initiatives to achieve net-zero CO_2 emissions from business processes, products, and services across our organization and providing solutions to support climate change adaptation.

Our Approach

Approximately 28% of energy-related CO_2 emissions are from buildings, of which 17% is residential.*1 We aim to reduce CO_2 emissions to net zero by 2050 by reducing the environmental burden of our operations, and providing environmentally sound products and services. Our commitment to the reduction of CO_2 emissions is not limited to direct reduction of CO_2 emissions from LIXIL's business. We also promote initiatives to contribute to the transition to a low-carbon society. Furthermore, we intend to support climate change adaptation by providing solutions, such as for dealing with natural disasters or for preventing indoor heatstroke.

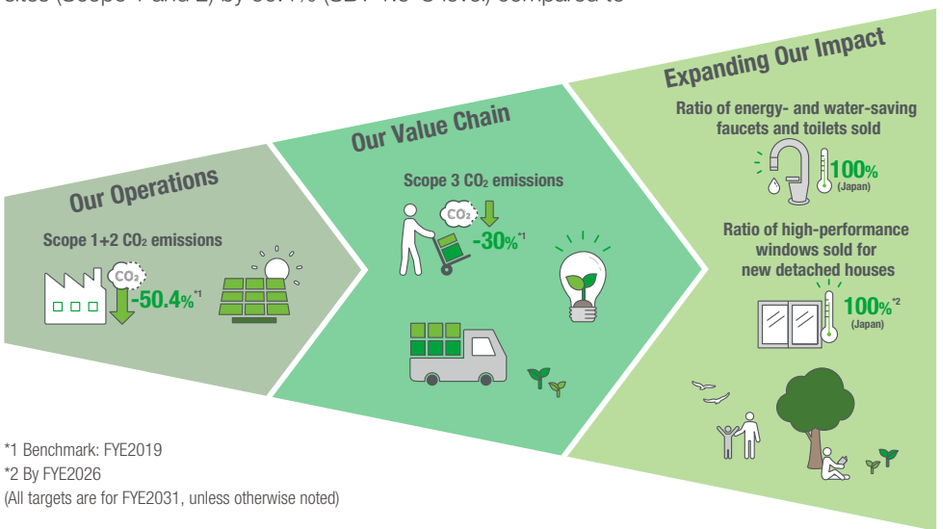
*1 United Nations Environment Programme (https://globalabc.org/our-work/tracking-progress-global-status-report)

Our Operations

By FYE2031, we aim to reduce CO_2 emissions from our business sites (Scope 1 and 2) by 50.4% (SBT 1.5°C level) compared to FYE2019. In addition to implementing thorough energy-saving measures at our plants and offices, we are also promoting energy efficiency and fuel conversion by encouraging electrification, switching to electricity derived from 100% renewable energy, and switching from petroleum-based fuels to natural gas at some of our production sites.

Also, in FYE2023, we successfully completed hydrogen combustion tests at our Maebashi Plant. Aiming for practical application from 2030 onward, we are seeking to apply new technologies, such as carbon capture and utilization (CCU) and methanation, that separate, collect, and effectively use CO_2.

Furthermore, as part of our efforts to transition to 100% renewable energy at our bases inside and outside Japan, we are promoting the use of renewable energy that has been generated in-house and introducing facilities to generate solar power through the on-site Power Purchase Agreements (PPA) model that considers the additionality of encouraging investment in new renewable energy facilities. At the end of FYE2023, our renewable energy ratio reached 26%.



*1 Benchmark: FYE2019
*2 By FYE2026
(All targets are for FYE2031, unless otherwise noted)

Our Value Chain

By FYE2031, we aim to reduce CO_2 emissions from supply chains (Scope 3) by 30% (SBT WB-2°C level*) compared to FYE2019 To that aim, we are seeking to reduce CO_2 emissions during product use by creating energy-saving products, including energy-saving toilets and kitchen facilities. We are also striving to reduce CO_2 emissions in the procurement and distribution stages together with our suppliers and other companies. In FYE2023, we conducted supplier surveys to assess their CO_2 emissions. We are also working to encourage the use of low-carbon raw materials and components as well as recycled materials and to create resource-saving products.

* The well below 2°C target of the Science Based Targets initiative (SBTi) to cap global temperature increase well below 2°C compared to pre-industrial temperatures

Expanding Our Impact

We have set targets to increase the sales ratio of energy- and water-saving faucets and toilets to 100% by FYE2031, and the sales ratio of high-performance windows for new detached houses to 100% by FYE2026. We are seeking to expand our impact to mitigate climate change by providing highly insulated windows and front doors; introducing high-performance construction methods for reinsulating entire homes including walls, ceilings, and floors; providing water-saving products; offering products with energy-creating functions and associated services; and producing IoT-driven delivery boxes.

WATER SUSTAINABILITY

As a leading company in water-related products, we create environmental value for water through water conservation, water circulation, and water purification technologies.

Our Approach

An estimated 2 billion people lack access to safe drinking water at home*1 and by 2050, 40% of the global population is likely to experience water stress.*2 Due to the growing population among other factors, total household use of water has increased six-fold since the 1960s.*3

LIXIL seeks to promote water sustainability by encouraging the responsible use of water in business processes and providing safe, delicious water that enables everyone, now and in generations to come, to enjoy the benefits of water to the full.

*1 The WHO/UNICEF Joint Monitoring Programme (JMP)
Progress on household drinking water, sanitation and hygiene 2000-2020: Five years into the SDGs
(https://washdata.org/reports/jmp-2021-wash-households)

*2 OECD Environmental Outlook to 2050: The Consequences of Inaction - Key Facts and Figures
(https://www.oecd.org/env/indicators-modelling-outlooks/oecdenvironmentaloutlookto2050theconsequencesofinaction-keyfactsandfigures.htm)

*3 World Resources Institute. Domestic Water Use Grew 600% Over the Past 50 Years
(https://www.wri.org/insights/domestic-water-use-grew-600-over-past-50-years)

Our Operations

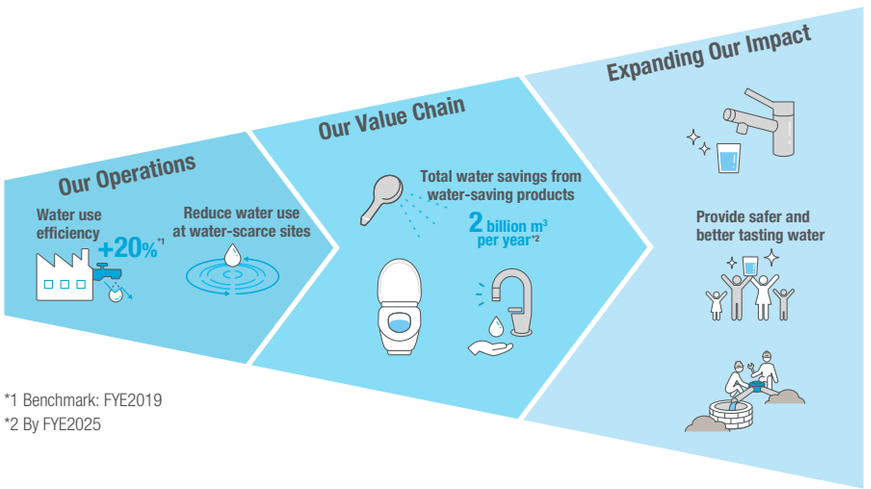
LIXIL aims to improve water use efficiency at its business sites by 20% by FYE2031 compared to FYE2019. At water-scarce sites, we take appropriate steps to improve water efficiency, recycle water, and manage wastewater. In FYE023, we used approximately 660,000 m^3 of recycled water. We also started conducting surveys in FYE2017 to identify water risks at 77 production sites that use water in their manufacturing processes to take measures based on the survey results at each site. We also participate in the Corporate Engagement Program run by the Science Based Targets Network (SBTN) and help formulate guidelines for water risk assessments.

Our Value Chain

LIXIL aims to contribute to a global reduction of 2 billion m^3 per year in water consumption by FYE2025. We help reduce the water consumption by end users through various products and services such as energy- and water-saving faucets and toilets, and IoT-enabled water leakage prevention solutions such as smart controllers.

Expanding Our Impact

LIXIL is working to reduce the risk of groundwater contamination by increasing access to safe sanitation facilities and safer water. Our new LIXIL Public Partners (LPP) is an organization that seeks to strengthen cooperation between the public and private sectors. LPP is currently conducting trials to introduce wastewater-treatment facilities and water-efficient fixtures and fittings in rural areas of the U.S. without access to public sewage systems. In addition, LPP is introducing water purification faucets and cartridges in areas that do have access to tap water to provide safer and better-tasting water. We are pressing ahead with our efforts to develop standout water-purifying products for global deployment by developing technologies that are tailored to individual markets at our X-Water Fab Tokoname (Tokoname, Aichi) and X-Water Lab Tokyo (Tokyo) water-purification research and development sites in Japan and at other bases around the world.



*1 Benchmark: FYE2019
*2 By FYE2025



Water-recycling shower GROHE *Everstream*

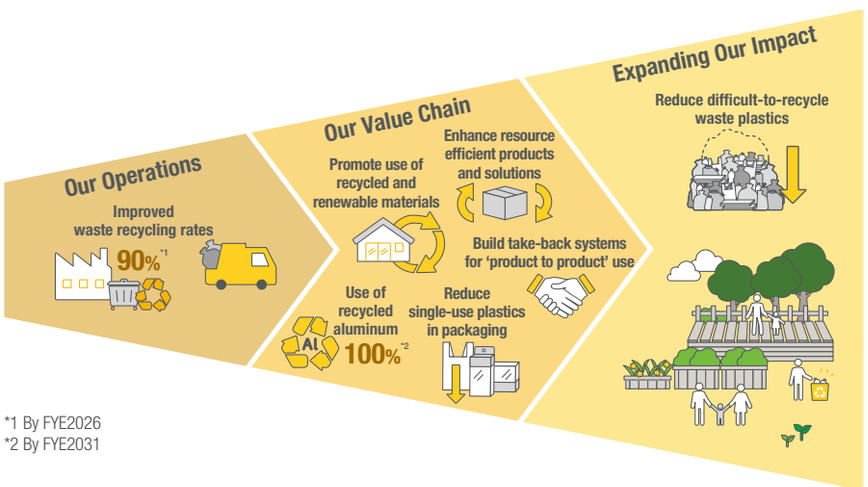
CIRCULAR ECONOMY

We promote the company-wide sustainable use of raw materials across the entire lifecycle of our products, from raw materials procurement through production, end use, and product disposal.

Our Approach

It is estimated that the world's consumption of resources will double by 2050.* We are promoting circular production across the entire product lifecycle, from procurement of raw materials, including metals, timber, resin, and ceramics, through to manufacturing, product use, disposal, and recycling, by promoting sustainable use of raw materials and easy-to-recycle design. While the amount of plastic waste has more than doubled worldwide over the past 20 years, the recycling rate remains at a stubbornly low 9%. Fueled by the LIXIL Plastics Action Statement announced in FYE2021, we are also working to reduce the amount of plastic we use, to recycle plastic, and to develop alternative materials.

* *With resource use expected to double by 2050, better natural resource use essential for a pollution-free planet*, UN Environment Programme (https://www.unep.org/news-and-stories/press-release/resource-use-expected-double-2050-better-natural-resource-use)



*1 By FYE2026
*2 By FYE2031

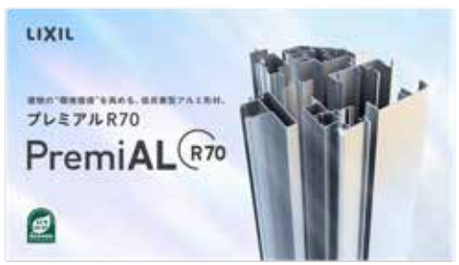
Our Operations

We have set a target of increasing the recycling rate of waste generated from our business sites to 90% globally by FYE2026. We promote the effective use of resources at our plants by improving manufacturing processes to help reduce the amount of raw materials used and waste generated, recycling waste, and converting wood chips into biomass fuel.

Our Value Chain

LIXIL is promoting the use of recycled materials such as recycled aluminum, recycled resin, and recycled wood in order to increase the ratio of recycled and renewable materials used for our products to minimize the use of new resources. We have set a target to increase the ratio of recycled aluminum used in our housing business to 100% by FYE2031. In FYE2023, we developed *PremiAL R70*, which uses 70% recycled aluminum as a raw material, and, in FYE2024, we plan to start selling *PremiAL R100* made from 100% recycled aluminum.

We are also working to reduce single-use plastic packaging, expand our supply of resource-efficient products designed for durability and reuse, and create a circular system that encourages product-to-product recycling.



Expanding Our Impact

LIXIL is working to develop circular materials that promote the effective use of waste plastic to reduce the amount of waste plastic that is difficult to recycle. In FYE2023, we developed a circular material called *revia*, that combines most types of waste plastics, including composite plastics and marine plastics, and waste wood from the demolition and repair of buildings. We aim to build an eco-system from procurement to production, sales, construction, and recovery, and contribute to the realization of a circular economy through collaboration with stakeholders such as governments, municipalities, industry associations, and business partners.

RESPONSE TO TCFD RECOMMENDATIONS

With regard to the material issue of Climate Change Mitigation and Adaptation, LIXIL announced its endorsement of the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD) in March 2019. Based on the TCFD recommendations, we have identified and assessed the risks and opportunities that climate change and other environmental issues pose to LIXIL. We are reflecting the results of the assessment in our environmental strategy after reporting to and approval by the Board of Executive Officers and the Board of Directors. In FYE2023, we updated the LIXIL Playbook and positioned "Embed Robust Environment Strategy" as one of our five strategic initiatives. As part of our response to the TCFD recommendations, we are working to establish integrated management of water and resources, recognizing their high correlation with climate change.

	Overview	Progress of FYE2023	Relevant page
Governance	LIXIL established the Environmental Strategy Committee (ESC) in order to create a governance system whereby the Board of Directors oversees overall sustainability. At regular meetings held at least once a quarter, the ESC formulates and implements environmental strategies, including determining policies and rules relating to environmental governance, deliberating and deciding measures to address risks and opportunities due to climate change and other environmental issues, and managing and monitoring company-wide environmental targets. The results of ESC discussions and deliberations are reported to the Impact Strategy Committee. The Board of Executive Officers discusses and approves targets and action plans, and the progress is elevated to the Board of Directors twice a year for discussion and oversight.	The ESC formulated medium-term targets for water sustainability and circular economy, and it also formulated a comprehensive approach for realizing the Environmental Vision 2050. The results were elevated to the Board of Executive Officers and the Board of Directors for discussion and approval of the revised environmental strategies.	p.69 Corporate Governance at LIXIL
Strategy	Looking ahead to 2030 as a milestone year toward achieving the LIXIL Environmental Vision 2050, we conduct scenario analyses to identify risks and opportunities that are expected to have a particularly large impact on our business from among items relating to climate change that might impact our value chain, including transition risks caused by changes in the market, policies and regulations, and physical risks such as abnormal weather patterns. Having referred to several existing scenarios published by the International Energy Agency (IEA) and the Intergovernmental Panel on Climate Change (IPCC), we have assumed two scenarios: the 1.5°C scenario, and the 4°C scenario. Based on these two scenarios, we are working to identify the transition risks posed by climate change due to changes in policies, regulations, and the market, as well as physical risks such as extreme weather events, to understand their financial impact, and to reflect them in the group's environmental strategies.	• We updated the LIXIL Playbook to strategically prioritize the incorporation of environmental strategies into our business strategies. By doing this, we aim to improve our corporate value while expanding our positive impact on society and the environment. • We expanded our material issues to include conservation of biodiversity as the common foundation for our three focus areas. We believe it is vital to address the issue in order to ensure the sustainable growth of LIXIL.	p.47 Impact Strategy p.51 Water Conservation & Environmental Sustainability
Risk Management	For climate-related risks and opportunities, LIXIL identifies significant climate-related risks and opportunities and assesses their impact by conducting scenario analyses based on the TCFD recommendations under the direction of the ESC. After judging the importance of each business risk, we develop activities designed to generate continuous improvements that involve the planning and implementing of countermeasures and the monitoring of progress at all levels of the organization.		p.27 Principal Risks and Countermeasures
Metrics and Targets	We manage Scope 1, 2, and 3 CO_2 emissions and the ratio of environmentally friendly products sold that help reduce CO_2 emissions in order to manage identified business risks and the climate change risks and opportunities that we have identified through scenario analyses based on the TCFD recommendations. We obtain third-party assurance regarding Scope 1, Scope 2, and particularly significant categories of Scope 3 emissions, water consumption, and waste generation, etc., and we disclose our targets and results for each indicator.	• We revised up our CO_2 reduction targets from the 2°C level to the 1.5°C level indicated by the Science Based Targets initiative (SBTi), and renewed our target validation. • We added medium-term 2030 targets for water and resources.	p.52 Environmental Strategy Update ESG Data >

For more details on "Disclosure of Environmental Issues (In response to the TCFD recommendations)," please visit here.

Strategies for Addressing Climate Change and Other Environmental Issues

Risk and opportunity category			Estimated financial impact		Strategic response	Metrics and targets	
			1.5ºC scenario	4ºC scenario			
Risk	Transition	(1) Increased operating costs due to introduction of carbon taxes	¥10 billion*1	No additional tax burden	• Improve energy use efficiency • Expand the use of renewable energy • Strategic capital investment • Verify implementation of decarbonization technologies	Carbon emission reduction by FYE2031 (vs. FYE2019) • Scope 1 and 2: Reduce by 50.4% • Scope 3*4: Reduce by 30%	• Carbon emission reduction by FYE2051 • Scope 1, 2, and 3: Net zero by FYE2051
		(2) Increased raw material and component procurement costs due to market changes	Financial impact not calculated due to lack of parameters necessary for quantification		• Procurement of low-carbon materials and components • Promote resource-conscious design • Supplier engagement • Effective and circular use of resources at production sites	Recycling rate of waste to 100% globally by FYE2026	
	Physical (acute)	(3) Loss of revenue opportunities due to damage to the Company's plants caused by typhoons, floods, etc.	¥1.5 billion*2		• Promote business continuity planning (BCP) • Systematic facility investments and upgrades	—	
	Physical (chronic)	(4) Loss of revenue opportunities due to the suspension of operations at the Company's plants caused by drought, etc.	Financial impact not calculated due to lack of parameters necessary for quantification		• Improve efficiency of water usage and introduce water circulation systems • Promote water risk management at production sites	• Improve water use efficiency at our business sites by 20% by FYE2031 (vs. FYE2019)	
Opportunities		(5) Increased demand for energy-saving products and services for new ZEH construction and energy-efficiency remodeling	¥20 billion*3	Maintain current trends	• Develop and promote eco-friendly products (high-performance windows, solar photovoltaic systems, high-efficiency housing, energy- and water-saving faucets and showers, etc.)	• Ratio of high-performance windows sold for new detached houses (Japan) 100% by FYE2026 • Ratio of energy- and water-saving faucets and toilets sold (Japan) 100% by FYE2031	
		(6) Increased demand for products that use low-carbon, eco-conscious materials or resources	Financial impact not calculated due to lack of parameters necessary for quantification		• Develop and promote low emission products using recycled materials (resin window frames, artificial wood decks, etc.)	Ratio of recycled aluminum used to 100% by FYE2031	
		(7) Increased demand for products related to disaster preparation, response, and recovery			• Develop and promote disaster prevention and mitigation products (storm shutters, sun blinds, storage of electricity, *Resilience Toilet*, etc.)	—	
		(8) Increased demand for products and services that help conserve water or improve water quality			• Develop and expand sales of water-saving and water-purifying products • Help provide safe water and reduce the risk of water pollution	Through water-saving products, global reduction of 2 billion m^3 per year in water consumption by FYE2025	

*1 Financial impact calculation is based on the assumption that a carbon tax (using IEA's estimates of carbon prices considered necessary to achieve the 1.5ºC target) is imposed on Scope 1 and 2 carbon emissions.
*2 Average loss is calculated based on the following steps: (1) identified any production sites with flood risks (based solely on production site location; risk mitigation measures set forth in our business continuity plans (BCP) are not incorporated), using the World Resources Institute's (WRI) Aqueduct Floods tool and hazard maps provided by Japanese municipalities; and (2) multiplied two factors: the number of days of stalled operations for sites in each inundation height zone indicated in Japan's Ministry of Land, Infrastructure, Transport and Tourism (MLIT) Manual for Economic Evaluation of Flood Control Investment; and the daily production volume of each site.
*3 Profit calculated based on the share, price, and profit margin of key products. This calculation assumes an increased ZEH percentage of new and existing housing in 2030 to achieve the Japanese government's 66% CO_2 reduction target for the residential sector by 2030.
*4 Excluding use-phase emissions from products that indirectly consume energy such as hot water supply during use.

DIVERSITY & INCLUSION

LIXIL aims to meet diversifying customer needs and support a healthy and comfortable life for all people, irrespective of their age, gender, and level of disability, through innovations that leverage the knowledge and perspectives of our diverse workforce, in order to create a society where everyone can live actively and positively.

Our Strategy and Management

The share of global population at ages 65 and above is projected to rise from 10% in 2022 to 16% in 2050.*1 While there have been global advances regarding women's roles in society, the global labor force participation rate for women is still just under 47% (compared to 72% for men). According to a 2022 report*2 from the International Labour Organization (ILO), women's pay around the world is on average 20% lower than men's.

Furthermore, approximately 15% of the world's population today also live with some degree of disability,*3 and this rate is increasing every year.

LIXIL is committed to providing innovative products and services that meet the diverse needs of customers in order to realize its goal of making better homes a reality for everyone, everywhere. To achieve sustainable growth by ensuring a truly customer-centric approach and realizing innovation that meets diverse needs, we believe it is important to build inclusive environments that enable a diverse range of employees to demonstrate their true potential. To that aim, we actively promote Diversity & Inclusion (D&I).

In March 2020, we established a global department responsible for developing company-wide measures for promoting D&I. In FYE2021, we set up the D&I Committee consisting of our CEO as chairperson and other executive officers and leaders, and updated our D&I Strategy and promotion measures. The D&I Committee implements various measures based on the D&I Strategy. Results of the committee discussions and deliberations are periodically reviewed by the Impact Strategy Committee (the former Corporate Responsibility Committee) to accelerate D&I initiatives across our organization.

*1 *World Population Prospects 2022: Summary of Results*, United Nations
*2 *Pay transparency legislation: Implications for employers' and workers' organizations*, International Labour Organization
*3 International Labour Organization

2030 D&I Road Map

Our D&I Strategy seeks to embed a culture of inclusion across LIXIL and to achieve gender equity by FYE2030. Recognizing the challenges our company faces, such as the gender pay gap and low proportion of female managers, we formulated an action plan to achieve our targets, and we are gradually implementing measures that incorporate D&I perspectives into our HR policies, talent development, and improvement of workplaces.

In FYE2023, we launched a dashboard for leaders with visualizations of KPIs such as inclusion score and percentage of female managers, to enable each department to monitor the impact of their D&I initiatives themselves. We also published the Leaders' Guide to Advancing D&I at LIXIL to share more practical case studies.

Additionally, as a key pillar of D&I promotion, we are also focusing on creating workplaces that make it easier for employees with disabilities to play an active role.

LIXIL aims to meet diversifying customer needs through innovations that leverage the knowledge and perspectives of our diverse workforce, and through numerous internal and external collaborations, so that everyone can live a healthy and comfortable life regardless of age, gender, and level of disability.

Aiming to create a universally accessible society that enables diverse groups of people to live invigorating lives while respecting those around them, we promote universal design (UD) that is easy for everyone to use, and conduct awareness-building activities that foster understanding of diversity.

By 2030, embed a culture of inclusion across LIXIL and achieve key gender equity goals.

Enhanced gender equity across leadership roles by 2030	• 50:50 for Board & Executive Officers by FYE2030 • 30% female managers across LIXIL by FYE2030 • Maintaining gender parity in new graduate recruitment (Japan)*

* Excluding our group companies.

Fostering an Inclusive Culture

We added inclusion as one of the KPIs in our LIXIL Voice employee opinion surveys, and are implementing measures based on the results in order to embed the inclusive culture that we declared as a goal of our D&I Strategy. In FYE2022, we have launched five Employee Resource Groups (ERGs) on a global scale focusing on Better Together, Multicultural, Ability, Working Parents & Caregivers, and LGBTQ+. We assign an executive officer to each group to support the group's activities as an executive sponsor.

We also conduct workshops and e-learning on a global scale designed to promote understanding of D&I elements such as unconscious bias and psychological safety, and workshops on utilizing the Leaders' Guide to Advancing D&I.

Empowering Women and Ensuring Meritocracy in the Workplace

We are transitioning to a new human resources system that adopts a job-based grade system in Japan, aiming to create equity and meritocracy, so that all of our employees can perform at their best and LIXIL can help them grow.

The new job-based grade system was adopted for manager level positions in April 2022. Having switched to a grade system based on job duties and responsibilities, the system applies a mechanism to reflect individual contributions and performance to compensation decisions. In addition, we have abolished the work location-specific employment system (regional wages), which had typically been utilized by more female employees than male employees, in April 2022. This reduces wage differences caused by likelihood of future work location transfer. With these changes, the Company aims for a merit-based compensation system that corresponds to individual job duties and responsibilities.

For general employees, the Company revised certain allowances in April 2023 to eliminate personal factors and realize compensation based on job content and performance contributions. Moreover, the Company plans to switch its grade system from an ability-based one to a job-based one as well as abolish the work location-specific employment system in April 2024, aiming for a merit-based human resources system regardless of gender or age. The Company continues to proactively evaluate HR policies and processes to accelerate equity.

Supporting a Healthy Work-Life Balance

We are committed to creating the necessary systems and cultivating the right atmosphere to support a good work-life balance, enabling employees to maintain a high level of performance throughout different life stages. We have been creating frameworks to further expand mechanisms for supporting flexible workstyles, childbirth, childcare, and nursing care. In FYE2023, we introduced initiatives to extend systems for supporting shorter working hours, and designated the 19th of every month as a promotional day to share information that increases awareness and understanding of male parental leave. We are aiming to achieve a 100% acquisition rate for paternity and male parental leave by FYE2025.*

* Including LIXIL's own paid childcare leave system for male employees

Promoting Universal Design

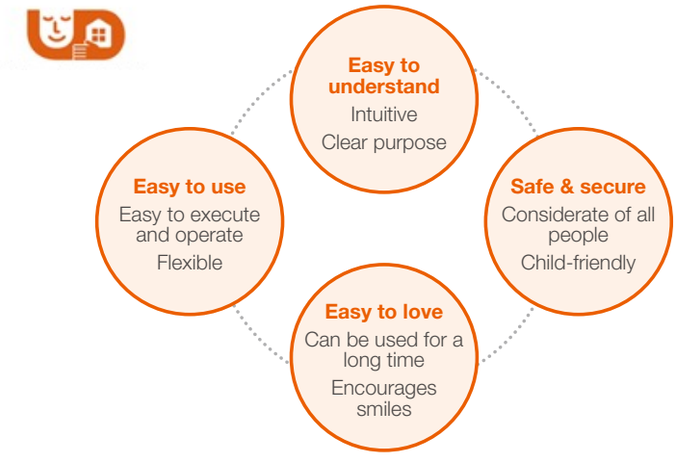
LIXIL defines our UD concept as "Good for One, Good for All, Good for a Lifetime," and provides housing and water-related products that suit diverse ways of living, as well as conducts research and proposals for public toilet systems that everyone can use comfortably and with peace of mind.

In FYE2023, we launched the *Body Hug Shower* to suit all lifestyles, and developed plans and proposals for public toilets designed with consideration for people who have dementia.

Promoting Broader Understanding of Diversity

In addition to providing training on UD for our employees, we also offer outreach classes at elementary schools and workshops where students can try using sports prosthetic limbs. We also share information on our UD website and LIXIL Public Toilet Lab website as part of our efforts to help create a universally accessible society.

LIXIL UD Concepts and Policies



HUMAN RIGHTS

Based on the LIXIL Human Rights Principles, we strive to uphold the human rights of all stakeholders, including customers, business partners including suppliers, residents living near our factories and offices, and our employees.

Human Rights Principles

LIXIL's business activities are built on a fundamental respect for human rights. The LIXIL Human Rights Principles are founded in accordance with international standards, including the International Bill of Human Rights, the International Labour Organization (ILO) Declaration on Fundamental Principles and Rights at Work, and the United Nations (UN) Guiding Principles on Business and Human Rights. We also promote efforts to respect the rights of all humans, including those of children based on the approach of the Children's Rights and Business Principles developed by UNICEF. If there are any discrepancies between the internationally recognized standards and local laws and regulations, we adhere to the higher commitment. If any contradictions exist, we seek a way of respecting international standards while complying with local laws and regulations.

Our Human Rights Principles stipulate key human rights issues, including to prohibit discrimination, prohibit forced and child labor, respect freedom of association and collective bargaining, and ensure decent wages and working hours, all in alignment with international standards. The principles also clearly state that we comply with laws and regulations regarding human trafficking, equal pay for equal work, immigrant labor, etc. In addition, the principles state that we also expect our business partners including suppliers to support the content of the principles and to adopt similar principles.

LIXIL periodically reviews and evolves the principles to continue to become a better protector of human rights. In FYE2022, we reviewed the principles we had formulated in FYE2016 and subsequently submitted revised principles that were approved by the Board of Executive Officers and signed by the CEO. Particularly, we specified in more detail our governance structure led by the executive officer in charge of legal, compliance, and corporate audit, our key human rights issues determined in FYE2021, and our human rights due diligence process as well as our concern-raising system and overall commitment to reducing human rights risks based on those frameworks.

LIXIL Human Rights Principles >

LIXIL's Key Human Rights Issues

In addition to formulating its Human Rights Principles, LIXIL has identified key human rights issues as focus areas for mitigating potential human rights risks as below. By addressing these issues, we aim to strengthen our human rights due diligence. We regularly conduct human rights risk assessment and will review these issues based on the assessment result.

- Provide equal opportunity and prohibit discrimination
- Prohibit forced and child labor
- Respect freedom of association and collective bargaining
- Ensure decent wages and working hours
- Ensure occupational health and safety
- Prohibit harassment
- Legal, fair, and transparent acquisition and use of personal data

Our System

LIXIL established the Human Rights Due Diligence Task Force, comprising members from a broad range of departments, as well as a governance structure led by the executive officer in charge of legal, compliance, and corporate audit who oversees human rights issues. We are using these systems to strengthen our company-wide human rights due diligence and promote transparent reporting. Any important policies and measures relating to human rights due diligence are reported to the Impact Strategy Committee when required and, in turn, the Impact Strategy Committee reports to the Board of Executive Officers and the Board of Directors. We are also planning to review our governance structure, including the Human Rights Due Diligence Task Force, to further strengthen our business and human rights efforts globally.

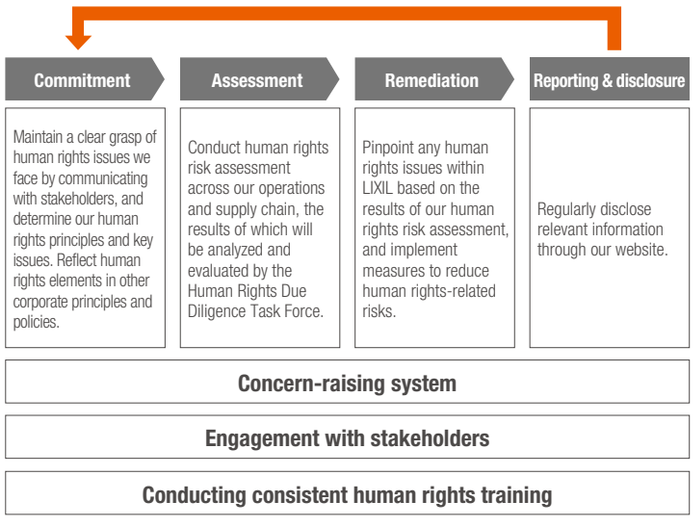
Key Activities Designed to Strengthen Our Commitment

FYE2016	Formulated the LIXIL Human Rights Principles
FYE2018	Established Human Rights Due Diligence Task Force
FYE2021	Identified LIXIL's seven key issues as focus areas for mitigating potential human rights risks
FYE2022	• Appointed the executive officer in charge of legal, compliance, and corporate audit to oversee human rights issues • Revised the Human Rights Principles, which were approved by the Board of Executive Officers and signed by the CEO • Conducted a human rights survey of all global employees (including indirect employees)

Our Human Rights Due Diligence Process

We seek to mitigate human rights risks by analyzing and assessing potential risks using the following human rights due diligence process.

Human Rights Due Diligence Process



In FYE2022, we conducted a human rights survey of all global employees, including indirect employees. We planned three measures to mitigate risks that have been identified through the survey. In FYE2023, we implemented the following measures as part of our risk mitigation plans with a particular focus on conducting and strengthening training and workshops designed to improve understanding of human rights.

- Members from the Human Rights Due Diligence Task Force who are responsible for promoting business and human rights at LIXIL took part in UNDP Business and Human Rights Academy training and an individual guidance session with human rights experts (in October 2022 and January 2023).
- Conducted business and human rights training with an external expert for directors and executive officers, from which videos and materials (in Japanese and English) were made available to all employees via internal social media (in March 2023)
- Published a video montage of messages about human rights from our global leaders, including the CEO (in November 2022)
- Strengthened communication via internal social media where all employees can access by sharing information and knowledge about human rights more frequently (now done once per month on average throughout the year)
- Continually conducted awareness-building and/or training programs for all employees on topics such as compliance, information security, and D&I (throughout the year)

In addition to surveys on human rights, we also conduct occupational safety audits, employee opinion surveys and responsible procurement surveys as part of our efforts to identify and mitigate potential human rights risks in our own business and our wider supply chain.

Concern-Raising System

LIXIL has established a concern-raising system that is operated in accordance with its policies on confidentiality, prohibition of retaliation, and procedures for reporting concerns.

We receive concerns through the LIXIL Compliance Hotline – Speak Up!, which is available online in 18 languages and accessible to all group employees, including those at subsidiaries outside Japan, and external stakeholders such as suppliers and other business partners. In Japan, we also provide a reporting channel with external lawyers serving as contacts. We accept anonymous reporting through either channel.

Concern-Raising System >

RESPONSIBLE SUPPLY CHAIN MANAGEMENT

We are committed to promoting responsible procurement that upholds the environment and human rights, and strengthening partnerships with suppliers.

Our Approach

We base our procurement on the Ten Principles of the United Nations Global Compact (UNGC) in the four areas of human rights, labor, environment, and anti-corruption. In accordance with the UNGC principles as well as our Procurement Principles and our Global Policy on Third Party Compliance for Suppliers, we seek to build sound partnerships with global suppliers to carry out procurement activities. Based on the LIXIL Human Rights Principles, we strive to uphold the human rights of our business partners including suppliers.

Our Supplier Code of Conduct compiled in FYE2018 has been translated into multiple languages and distributed to suppliers, requiring them to respect human rights, observe international labor standards, conserve the global environment, and ensure fair business conduct. In FYE2023, we revised the Code to add stipulations related to factors such as human rights, labor, and the environment, and strengthened our risk management system by specifying the reporting hotline for violations and other concerns. The Code now also states that we expect compliance not only from direct suppliers, but also their own suppliers.

Additionally, we created Green Procurement Guidelines outlining our policy and standards for procuring parts and materials that exert the least impact on the environment. In Japan, we endorsed the objectives of the “Conference on Promoting Partnership Building for the Future” promoted by the Cabinet Office and the Small and Medium Enterprise Agency and announced the “Declaration for Building Partnerships.”

Please click on the links below for related policies and guidelines:
LIXIL Procurement Principles >
Supplier Code of Conduct >
Green Procurement Guidelines >
Declaration for Building Partnerships (Japanese only) >

Promoting Responsible Procurement That Upholds the Environment and Human Rights

LIXIL conducts risk assessments of new suppliers by checking written responses to surveys on compliance. Depending on the results of an initial risk screening, which are based on risks arising from the relationship with suppliers (e.g., products and services, characteristics, industry, and geographic locations), we also ask about their measures for anti-corruption, labor management, occupational health and safety, and human rights.

We also regularly check ongoing initiatives at existing suppliers through responsible procurement surveys, site visits, online interviews, and other means, and follow progress on any improvements.

Conducting and Following Up on Responsible Procurement Survey

LIXIL identifies supply chain risks by conducting a responsible procurement survey and checking subsequent progress. Survey results form part of the basis for selecting suppliers or determining whether to continue business with an existing partner. For suppliers that are classified as high risk because their conformity rates are substandard, we provide site visits, education, and other forms of individual guidance that help promote sustainable partnerships and strengthen our supplier base, the primary goals of our supply chain management strategy.

Responsible Procurement Survey Results

Activities	KPI		FYE2021		FYE2022		FYE2023	
			Targets	Results	Targets	Results	Targets	Results
Distribute Procurement Principles, follow up on survey results and related activities	Coverage ratio (based on purchased amount)	Japan	90%	94% (1,293)	90%	90% (1,357)	90%	90% (1,185)
		Overseas	90%	85% (378)*1	90%	90% (415)	90%	90% (421)
	Total conformity rate	Japan	90%	91%	90%	91%	90%	92%
		Overseas	—	89%	—	89%	—*2	92%
	Improvement rate	Japan	100%	100%	100%	100%	100%	100%

Scope: Suppliers to LIXIL Corporation and its subsidiaries. Figures in parentheses represent the number of applicable companies.
Japan: Procurement by operating sites in Japan
Overseas: Procurement by operating sites outside Japan
*1 Survey coverage for the Asia region began in stages from FYE2021. Excluding the Asia region, the coverage ratio is 92% (336 companies).
*2 No target has been set as the scope is currently under reconsideration.

03
GOVERNANCE

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LIXIL's Corporate Governance Supports Sustainable Growth







MESSAGE FROM THE CHAIRPERSON OF THE BOARD OF DIRECTORS

We are committed to providing effective direction, and will support sustainable growth by closely focusing on the status of strategy execution.



Masatoshi Matsuzaki
Chairperson of the Board of Directors

The FYE2022 evaluation of effectiveness confirmed that LIXIL has made steady progress in restructuring governance. During FYE2023, the Board of Directors focused on (1) overseeing internal understanding and implementation of the updated LIXIL Playbook, the Company's guide for executing its growth strategy; (2) overseeing initiatives to address sustainability issues, as highlighted in Japan's revised Corporate Governance Code; and (3) holding strategic discussions for sustainable growth.

Regarding (1), the updates to the LIXIL Playbook include provisions for (i) implementing measures to achieve medium-term financial targets in the rapidly changing business environment; (ii) going beyond the medium-term financial targets to also make LIXIL an excellent company; and (iii) consolidating revisions to measures conducted by corporate functions to support (i) and (ii). We confirmed that execution status reports from the CEO and other executive officers referenced the updated LIXIL Playbook.

Regarding (2), we have been focusing on execution initiatives from the perspective of both risks and growth opportunities. In terms of risks, we confirmed that LIXIL's initiatives for the environment and human rights were keeping pace with the requirements of the international community. In terms of growth opportunities, we confirmed that LIXIL is doing more than just responding passively to the needs of society – it is also drawing on Board opinions regarding the positioning of environmental strategies as part of the Company's growth strategy and strengthening its human resource strategy as a source of competitiveness.

With regard to (3), through the Governance Committee, outside directors exchanged opinions concerning issues the Board of Directors should discuss for the sustainable growth of LIXIL. The issues identified were shared with internal directors and then discussed at Board of Directors' meetings. We were thus able to follow up on issues and discussion points that were not sufficiently covered in Executive Officers' reports.

The Board of Directors continues to stand behind the executive team's approach of not compromising on medium-term strategic measures even as challenges arise in near-term business performance. Nonetheless, it is important that the implementation of those strategic measures results in a business structure that generates strong gross profit. As such, I would like to focus on the status of their execution. We also recognize the issue of continuously enhancing the collective capabilities of the outside directors in order to contribute to the Board of Directors' ability to provide effective direction for LIXIL's sustainable growth.

Main Agenda Items for FYE2023

Note: Excludes agenda items related to financial results

Themes	Main agenda items
The LIXIL Playbook	・Improvement of the global supply chain ・Medium- to long-term growth strategies
Governance	・Reports and discussions from three statutory committees and the Governance Committee (CEO succession plan, outside director succession plan, response to the Board of Directors' effectiveness evaluation, etc.)
Sustainability	・Identification of key themes for sustainable growth ・Status review of initiatives pertaining to sustainability ・Impact Strategy
Other	・Capital policy (completion of share buybacks and cancellation of treasury shares) ・Status of Intellectual Property Strategy and its governance structure ・Status of activities and systems pertaining to other key themes (information security, quality management, safety and health, etc.)

THE BOARD OF DIRECTORS' EFFECTIVENESS EVALUATION

The evaluation is performed to confirm the effectiveness of the Board of Directors and the committees, and to identify medium- to long-term issues with regard to improving their effectiveness.

Progress on Priority Issues from FYE2022

Priority issues	(1) Reconfirm the role of the Board of Directors and strengthen strategy discussions to suit the new phase	(2) Re-examine the ideal committee activities required of a company with a nomination committee, etc.	(3) Implement an outside director succession plan to continuously support the newly restructured governance system	(4) Implement a CEO succession plan to achieve continued corporate value improvement
Implemented improvements	Formed consensus on 11 important themes for the Company's sustainable growth and set them as agenda for the Board of Directors' meetings	Deliberate on each committee's issues across the organization at meetings of the Governance Committee (e.g., how organizational audits should be conducted at a company with a nomination committee, etc.)	Re-examined the appropriateness of the succession plan at the Nomination Committee in FYE2023, then implemented as per the plan	Confirm and update the list of possible successors; promote understanding of the next generation of leaders, including executive officer successor candidates
Results of implementation	As a result of the effectiveness evaluation for FYE2023, it has been confirmed that the Board of Directors and the committees are performing their role to "further contribute to the growth strategy" through implementation of high-priority measures for each issue.			

Evaluation Process and Results for FYE2023

Implemented an evaluation by the external specialized organization Board Advisors Japan, Inc. (questionnaire for directors and executive officers as well as individual interviews with directors).

Main focuses during evaluation	(1) Whether progress on the four priority issues of the previous fiscal year has been smooth (2) Whether the transition from the "restructuring of corporate governance" to the stage aiming at "further enhancement of corporate value" is under way (3) Whether sufficient deliberations are held on important management issues, etc.
Results summary (evaluation by outside specialist)	It was confirmed that the effectiveness of LIXIL's Board of Directors is ensured, and that the main challenge of the Company's corporate governance has shifted from "restructuring corporate governance" to the stage of "realizing further enhancement of corporate value."

Initiatives and Priority Issues for FYE2024

As a result of deliberations by the Governance Committee, etc., the following priority issues were set for further improving the effectiveness of the Board of Directors and its committees. The Company will appoint an owner for each issue and move forward with measures to resolve the issues.

Priority issues	(1) Establishment of an "ideal way of oversight" by the Board of Directors (2) Plan for smooth succession of outside directors and assistance for their integration (3) Promotion of measures for a stronger organizational auditing system

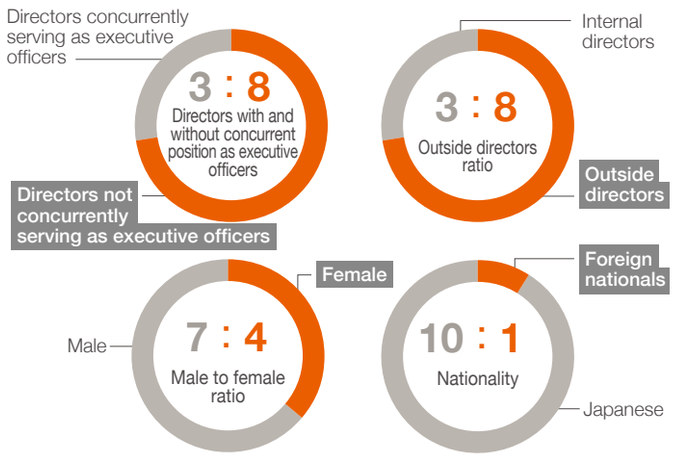
Board of Directors' Members, Meetings Convened, and Attendance in FYE2023

Member	Independent directors	Meetings convened	Attendance
Kinya Seto		15	15
Sachio Matsumoto		15	15
Jin Song Montesano		15	15
Masatoshi Matsuzaki	○	15	15
Tamio Uchibori	○	15	14
Shiho Konno	○	15	15
Teruo Suzuki	○	15	15
Mayumi Tamura*	○	12	12
Yuji Nishiura	○	15	15
Daisuke Hamaguchi	○	15	15
Mariko Watahiki	○	15	15

* Appointed June 21, 2022

Board of Directors' Members in FYE2024

(As of June 21, 2023)



ELECTION OF DIRECTOR CANDIDATES

Month	Internal director candidates (reappointment/new appointment)	Outside director candidates (reappointment)	Outside director candidates (new appointment)
Jul. 2022	Beginning of considerations by the Nomination Committee on the composition of the Board of Directors for the next term		
Aug.		Decision on policy regarding the succession plan for outside directors Decision on the specialized external organization for outsourced assessment	Formulation of outside director search plan
Sep.		Discussion of method for implementing individual outside director assessments	**Preparation of director candidate list** Creation of a candidate list based on external search firm results and recommendations from directors (updated on an ongoing basis thereafter)
Oct.	Implementation of effectiveness assessment of the composition of the Board of Directors by a specialized external organization (Main assessment criteria) ● Ratio of internal directors to outside directors ● Experience, knowledge, and expertise required of directors ● Ensuring diversity	Implementation of individual assessment of outside directors by a specialized external organization	
Nov.			
Dec.			Interview of candidates for new appointment by the Nomination Committee
Jan. 2023	Examination of the framework for the next term based on the results of discussions, etc. with the Chairperson of the Nomination Committee and the CEO	Feedback of individual assessment results Deliberation on policy regarding the succession plan for outside directors for the next term	Implementation of the Company's prescribed process for nomination of director candidates (confirming independence, etc.)
Feb.		Deliberation on the Board of Directors composition/committee composition, etc. for the next term	
Mar.	Determination of proposed director candidates/proposed committee composition, etc. for the next term		
Apr.	Finalization of skills matrix used from the end of the Shareholders' Meeting held in June 2023		
May	Disclosure of skills matrix		
Jun.	**Election of directors** Submission of proposal to the Shareholders' Meeting for election of director candidates; election of directors for a one-year term based on votes on the proposal		

Assessment System for Outside Directors

We conduct periodic individual assessments of outside directors for the purpose of assessing their contribution to the Company. The second assessment was conducted in FYE2023, as follows.

(Summary of assessment method)

Subjects of assessment: Three outside directors (two appointed in 2021, and one appointed in 2022; simple evaluation for outside director appointed in 2022)

Assessment method: Individual interviews with all directors, executive officers, and others, by a specialized external organization

Main perspectives in the assessment:

- Whether the individual took actions that contributed to the restructuring of the Company's corporate governance
- Whether the individual asked appropriate questions in line with the objectives of the agenda
- Contributions the individual made to any committees of which he or she was a member

The results of the assessment were reported to the respective outside director for the purpose of future improvement, and were used in consideration by the Nomination Committee on the succession plan for outside directors.

Skills Required of Directors

In order to appropriately supervise the Company's execution of business, the Board of Directors should be comprised of personnel who have abundant experience and specialized knowledge. The above table "Experience, Knowledge, and Expertise required of Directors" (hereinafter, "skills") sets forth areas of experience and knowledge that the Nomination Committee has determined to be particularly important to LIXIL. The committee believes that it is important that the Board of Directors should encompass these skills as a whole. Under its corporate purpose of making better homes a reality for everyone, everywhere, the Company is working to achieve sustainable growth together with society through the strategic initiatives and Impact Strategy of the LIXIL Playbook, which lays out medium- to long-term management direction. Toward that end, the Company believes that for the Board of Directors to effectively fulfill its supervisory function with respect to the execution of business, what is required from the perspective of sustainability is the attitude or perspective of each individual director, rather than simply skills. We expect the supervisory function to be demonstrated through the expert skills of each director, such as practical experience in corporate management, knowledge of accounting, finance, and M&A, knowledge of risk management, and knowledge of human resources training, development, and labor.

Composition of the Board of Directors and Committees in FYE2024*

Experience, Knowledge, and Expertise required of Directors	Kinya Seto	Sachio Matsumoto	Jin Song Montesano	★Jun Aoki	★Shigeki Ishizuka	★Shiho Konno	★Mayumi Tamura	★Yuji Nishiura	★Daisuke Hamaguchi	★Masatoshi Matsuzaki	★Mariko Watahiki
Practical experience in corporate management	●	●	●	●	●		●	●		●	
Experience in global business and management	●	●	●	●	●		●		●	●	
Experience in negotiating with government agencies	●	●	●	●		●		●	●		●
Knowledge of accounting, finance, and M&A	●	●					●	●	●		
Knowledge of legal and compliance	●	●				●	●		●		●
Knowledge of risk management	●	●	●	●	●	●	●	●	●	●	●
Knowledge of human resources training, development, and labor	●		●	●	●	●		●		●	●
Knowledge of sales and marketing	●			●	●			●			
Knowledge of manufacturing, technology, and R&D	●			●	●					●	
Knowledge of IT and digital	●				●	●	●	●		●	
Chairperson of the Board and Committee Membership											
Chairperson of the Board of Directors										◎	
Nomination Committee				●				◎		●	●
Audit Committee					●	●	●		◎		
Compensation Committee				●				●			◎
Governance Committee				●	●	●	●	●	●	◎	●

* Since June 21, 2023 ★ Independent officer ◎ Chairperson ● Committee member

LIXIL BOARD OF DIRECTORS (As of June 21, 2023)*

* The number of Company shares and Phantom Stocks held are as of June 1, 2023.

Profiles and reasons for nomination of directors are available on our corporate website.

www.lixil.com/en/about/board/



KINYA SETO

Director, Representative Executive Officer, President, and CEO
Number of Company shares owned: 560,624
Number of Phantom Stocks held: 242,315



SACHIO MATSUMOTO

Director, Representative Executive Officer, Executive Vice President, Finance, Treasury, M&A, and IR, and CFO
Number of Company shares owned: 105,131
Number of Phantom Stocks held: 41,368



JIN SONG MONTESANO

Director, Representative Executive Officer, Executive Vice President, Human Resources, Communications, External Affairs, and Impact Strategy, and Chief People Officer
Number of Company shares owned: 67,983
Number of Phantom Stocks held: 33,304



JUN AOKI

Outside Director, Member of Nomination Committee, Member of Compensation Committee, and Member of Governance Committee
First-class architect
Number of Company shares owned: 0
Number of Phantom Stocks held: 0



SHIGEKI ISHIZUKA

Outside Director, Member of Audit Committee and Member of Governance Committee
Number of Company shares owned: 0
Number of Phantom Stocks held: 0



SHIHO KONNO

Outside Director, Member of Audit Committee and Member of Governance Committee
Lawyer
Number of Company shares owned: 0
Number of Phantom Stocks held: 2,000



MAYUMI TAMURA

Outside Director, Member of Audit Committee and Member of Governance Committee
Number of Company shares owned: 0
Number of Phantom Stocks held: 2,000



YUJI NISHIURA

Outside Director, Chairperson of Nomination Committee, Member of Compensation Committee, and Member of Governance Committee
Number of Company shares owned: 0
Number of Phantom Stocks held: 2,000



DAISUKE HAMAGUCHI

Outside Director, Chairperson of Audit Committee and Member of Governance Committee
Number of Company shares owned: 0
Number of Phantom Stocks held: 2,000



MASATOSHI MATSUZAKI

Outside Director, Chairperson of the Board of Directors,
Chairperson of Governance Committee, and Member of Nomination Committee
Number of Company shares owned: 0
Number of Phantom Stocks held: 2,000



MARIKO WATAHIKI

Outside Director, Chairperson of Compensation Committee, Member of Nomination Committee, and Member of Governance Committee
Lawyer
Number of Company shares owned: 5,000
Number of Phantom Stocks held: 2,000

CORPORATE GOVERNANCE AT LIXIL

LIXIL Corporation has adopted the corporate governance structure of a "Company with Nomination Committee, etc." as outlined in Japan's Companies Act. Under this structure, corporate governance is founded on management execution by executive officers and other management personnel, and management supervision by the Board of Directors. However, the Board of Directors' role goes beyond simply supervising management execution. By establishing an environment that supports an appropriate risk appetite on the part of management, the Board facilitates the construction of a framework that ensures decision-making is well-reasoned, quick, and decisive.

In order to continuously enhance corporate governance, the Company has voluntarily established the Governance Committee and convenes various voluntary committees as appropriate, comprising members of the executive team. These committees discuss management strategies, Impact Strategy, medium- and long-term policies, and investment-related matters, thereby accelerating decision-making while enhancing the effectiveness of governance.

Impact Strategy Promotion and Risk Management Structure



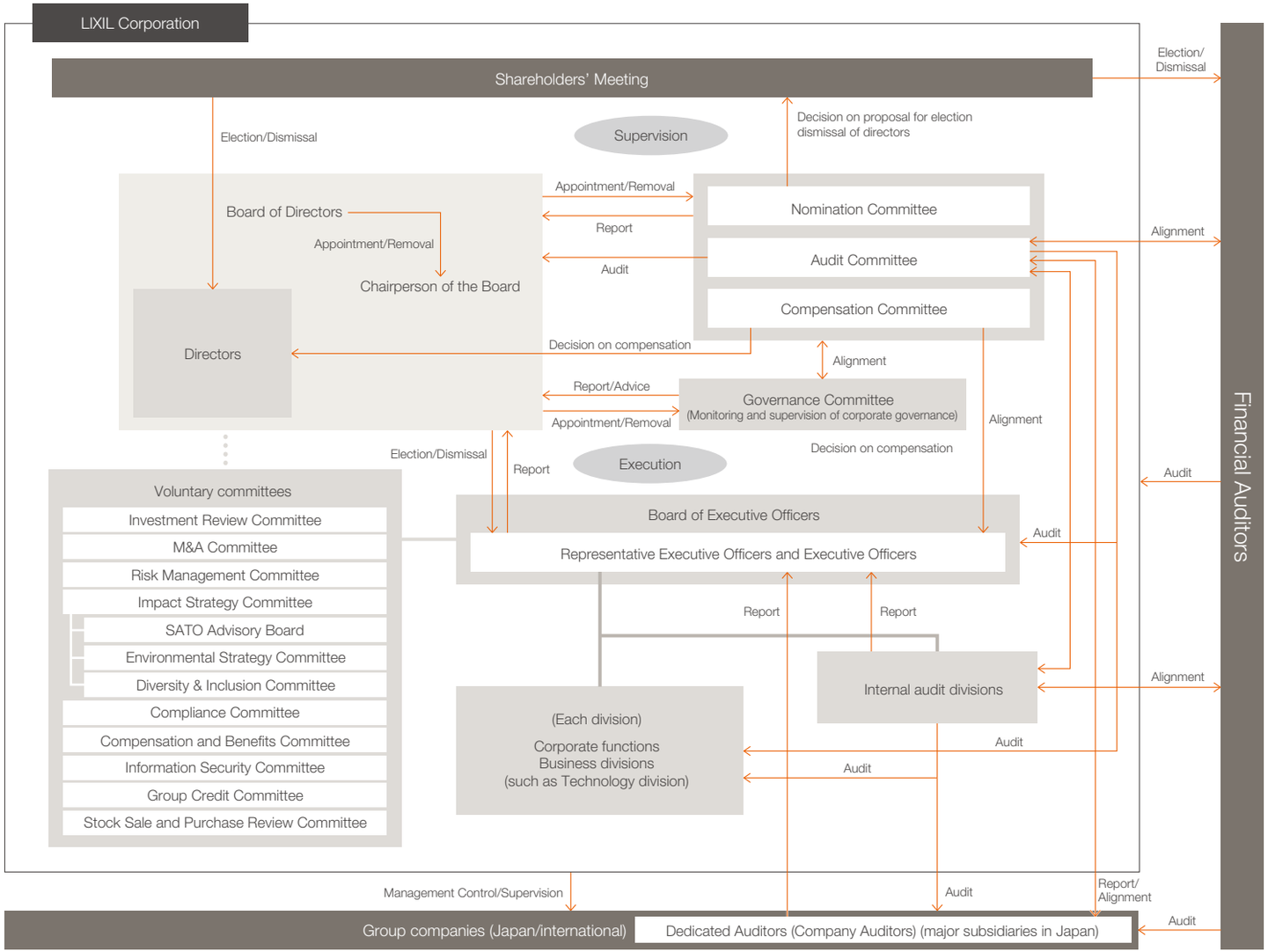
These bodies work with the relevant committees to make adjustments to Impact Strategy-related and ESG-related items, and manage and track commitments in the field of priority Impact Strategy initiatives.

The Board of Directors is responsible for reviewing the Impact Strategy formulated by the executive team and approving it as a policy, and continuously verifies that this policy is aligned with LIXIL's management strategies (in terms of allocation of management resources to priority areas such as investments in human capital or intellectual property; business portfolio composition; and other aspects).

For further details regarding the Company's corporate governance, internal control systems, and other related matters, please visit our corporate website.

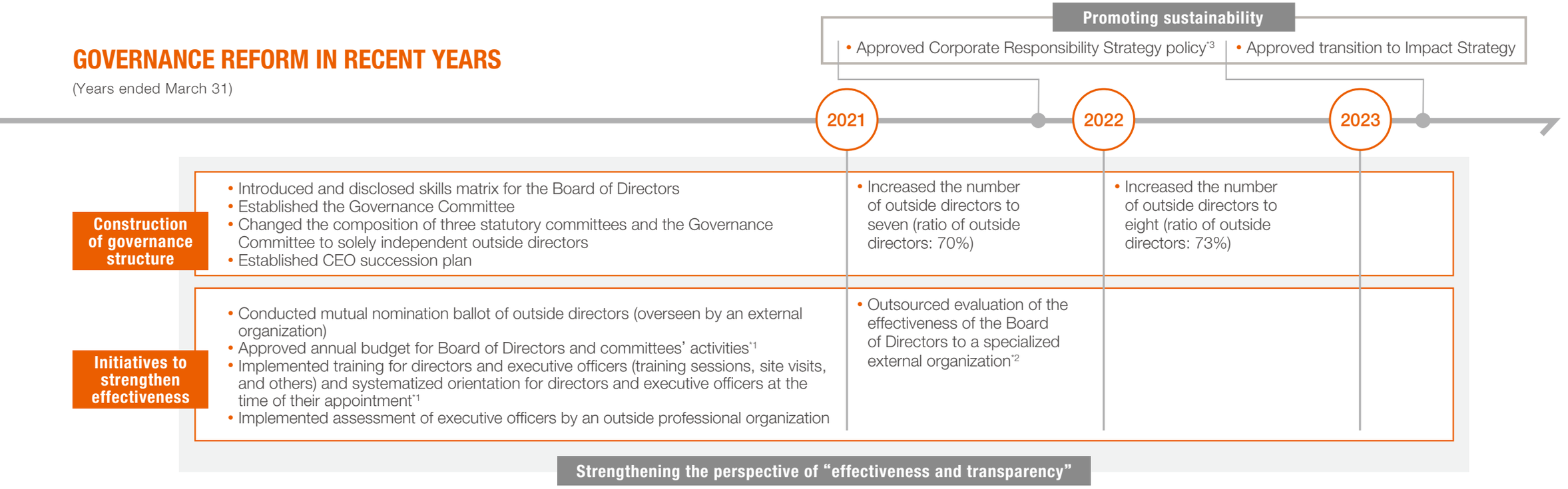
www.lixil.com/en/about/governance/

Governance Structure (As of June 21, 2023)



GOVERNANCE REFORM IN RECENT YEARS

(Years ended March 31)



*1 Conducted annually since then *2 Outsourced at least once every three years thereafter *3 Transitioned from Corporate Responsibility Strategy to Impact Strategy in 2023

SUPPORT SYSTEM FOR OUTSIDE DIRECTORS

Outside directors regularly have the opportunity to visit manufacturing sites, etc., and participate in training sessions, through which they are able to deepen their understanding of LIXIL's various businesses and important management issues.

System for Providing Information to Outside Directors

We hold training sessions given by outside lecturers for all officers, including outside directors, on important management matters such as risk management at least once a year. In addition, pursuant to requests from outside directors we are implementing the following measures to deepen understanding of LIXIL's businesses and promote substantive Board discussion.

(1) Preliminary briefings on important themes
(2) Visits to manufacturing sites and other business locations
(3) Provision of basic information about the LIXIL group, including production systems and personnel composition

System for Providing Information to Newly Appointed Outside Directors

Shortly after assuming office, outside directors receive guidance about their responsibilities from executive officers. In addition, outside directors participate in inspections of key facilities such as the primary factories of LWT Japan and LHT in Japan and flagship showrooms.

Initiatives in FYE2023

Outside directors participated in on-site inspections of the Otani Factory and an exhibition on the new technology of LWT Japan. We also held training sessions for officers with the theme of "business and human rights" as part of risk management training.



Site visit at Otani Factory

Number of Meetings Held during FYE2023

Board of Directors 15

Made decisions on matters specified by law, basic management policies, and important management matters, while monitoring the conduct of duties of directors and executive officers.

Nomination Committee 13

Made decisions on the content of proposals to be submitted to the Shareholders' Meeting regarding the election and removal of directors. Reported its opinion to the Board of Directors when requested, such as on the election, appointment, removal, and dismissal of candidates for executive officer and Representative Executive Officer (CEO), and on the appointment and dismissal of the Chairperson of the Board, members, and chairpersons of each committee, etc.

Audit Committee 14

In addition to auditing the conduct of duties by directors and executive officers, discussed and made decisions on auditing policy, auditing plans, and the content of proposals to be submitted to the Shareholders' Meeting regarding the election and removal of financial auditors.

Compensation Committee 11

Made decisions regarding the compensation of directors and executive officers and their individual compensation received from the Company as consideration for duties.

Governance Committee 7

Continually enhances the Company's corporate governance, discusses or advises the Board of Directors on matters such as reviewing and amending the LIXIL Corporate Governance General Policy, and manages the implementation of the evaluation of the effectiveness of the Board of Directors.

Board of Executive Officers 14

As the decision-making body responsible for the execution of business activities in accordance with the basic policies approved by the Board of Directors, this Board decided on important matters relating to the execution of business in the Company and the LIXIL group of companies as a whole.

Investment Review Committee 21

Deliberated and made decisions on material investments (excluding those relating to M&A), financing, and matters relating to the establishment, reorganization, and restructuring of subsidiaries (conducted by the Company and its subsidiaries) within the authority delegated by the Board of Executive Officers.

M&A Committee 31

Deliberated and made decisions on matters relating to M&A (including divestment of business) conducted by the Company and its subsidiaries, within the authority delegated by the Board of Executive Officers.

Risk Management Committee* 0

Endeavors to improve the ability to deal with future risks by predicting extraordinary risks of the Company and the LIXIL group of companies and establishing systems to address them in advance.

Corporate Responsibility Committee (Now Impact Strategy Committee) 4

Selected and reviewed material issues for the overall LIXIL group of companies, formulated the targets as well as the initiatives of the CR Strategy, and provided oversight and guidance for the implementation of priority themes and activities.

SATO Advisory Board 3

Reviewed and provided guidance on SATO's overall business strategy and key operational issues such as annual targets and strategic plans, internal and external partnerships, and risk management.

Environmental Strategy Committee 8

Established and implemented environmental strategies, including the formulation of regulations and policies related to environmental governance, deliberation and decision-making on measures to address environment-related issues, and management and monitoring of group-wide environmental targets.

Diversity & Inclusion Committee 1

Supervised formulation and implementation of basic diversity and inclusion policies and roadmaps throughout the LIXIL group of companies.

Compliance Committee 4

Resolved the important compliance strategy and plans as well as reported on training and promotional activities of the LIXIL group of companies.

Compensation and Benefits Committee 4

Made decisions regarding compensation and benefits structures for officers as well as employees of the Company and the LIXIL group of companies and officers' individual compensation, except for the matters to be exclusively resolved by the Compensation Committee, while monitoring HR policies in terms of compensation and benefits.

Information Security Committee 4

As the committee responsible for decision-making on fundamental matters related to group-wide information security and data privacy, decided on and approved relevant policies, resolved issues, approved implementation of countermeasures, and conducted measures to ensure awareness.

Group Credit Committee 4

Resolved and deliberated on credit management related to business transactions with third parties conducted by the Company and its subsidiaries in order to accelerate decision-making and enhance effectiveness of governance.

Stock Sale and Purchase Review Committee 8

Conducted reviews and examined insider trading regulations in order to prevent rule violations as well as to fulfill the Company's social responsibilities as a business in the event that officers or employees give prior notification they will be engaging in the sale or purchase of the Company's shares and others.

* There was no meeting in FYE2023 because we operated flexible risk management systems, such as activating task forces as necessary at headquarters and in regions, in preparation for increasing levels of risk.

Status of Cross Shareholdings

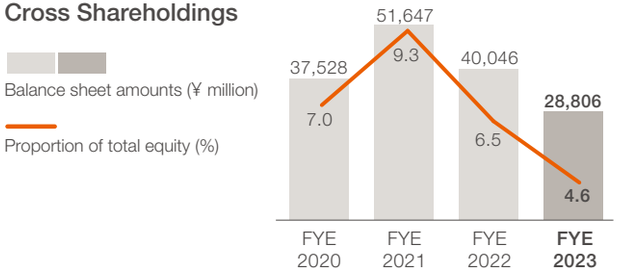
LIXIL and its group companies maintain cross shareholdings in cases where it is deemed necessary in terms of facilitating sales activities or as part of external alliances required for the Company's business activities. Every year, we conduct a comprehensive evaluation of each cross-held stock in terms of the status of business dealings between the issuer and the Company, the total amount invested, and whether the cost of capital matches the benefits and risks of the holding. The Board of Directors subsequently verifies the content of these evaluations. Due to changes in the LIXIL group's operating environment, we are working to reduce cross shareholdings in cases where reevaluation indicates that the rationale for the cross shareholding is no longer valid. As a result, as of March 31, 2023, the total number of (listed) cross-held stocks was 47.

Cross Shareholdings and Balance Sheet Amounts*

Category		FYE2020	FYE2021	FYE2022	**FYE2023**
Number of cross-held stocks	Listed	58	53	49	**47**
	Unlisted	105	102	98	**88**
	Total	163	155	147	**135**
Balance sheet amounts (¥ million)	Listed	36,185	50,317	38,733	**27,236**
	Unlisted	1,343	1,330	1,313	**1,570**
	Total	37,528	51,647	40,046	**28,806**

* Total cross shareholdings held by the Company or the former LIXIL Corporation

Cross Shareholdings



MESSAGE FROM THE CHAIRPERSON OF THE NOMINATION COMMITTEE



Yuji Nishiura
Chairperson of the Nomination Committee

Outlook on Long-term Issues and Direction of Initiatives

The Nomination Committee transitioned from a phase of restructuring corporate governance to a phase of ensuring LIXIL's sustainable growth, which entails focusing on building the foundation for transforming the management team for the next generation. As such, we are taking the following actions:

(1) Clarifying and improving transparency of the reappointment process for the CEO and appointment and election process for directors and executive officers
(2) Gaining a greater understanding of the next generation of human resources and monitoring training plans
(3) Succession planning for outside directors and implementing individual assessments of outside directors
(4) Reviewing the composition of committees

Specific Initiatives and Progress in FYE2023

Initiatives to build the foundation for transforming the management team for the next generation proceeded as planned. During FYE2023, we focused on gaining an understanding of the next generation of human resources and monitoring training plans, as well as succession planning for outside directors. One specific example was to identify future executive officer candidates through group interviews.

Another example is the ongoing implementation of individual assessments of outside directors via an initiative unique to LIXIL. Based on the insights gained from these assessments we have been identifying outside director candidates and considering how to plan for their succession. These activities helped us lay the groundwork for transforming the management team for the next generation and achieve further increased effectiveness of the Board of Directors and the various committees. In FYE2023, the above initiatives resulted in the appointment of one new representative executive officer, the election of two new outside directors, and the retirement of two outside directors.

Key Initiatives and Future Direction

The Nomination Committee remains committed to the goals of ongoing qualitative improvement of corporate governance and transformation for the next generation.
Specific initiatives include the following:

(1) Monitor human resource development based on the CEO succession plan
(2) Identify management personnel who will lead the next generation and expand the list of executive officer successor candidates
(3) Formulate a succession plan for outside directors to achieve further qualitative improvement of the Board of Directors

Nomination Committee Members, Meetings Convened, and Attendance in FYE2023

Member	Meetings convened	Attendance
Yuji Nishiura (Chairperson)	13	13
Shiho Konno*	10	10
Daisuke Hamaguchi	13	13
Masatoshi Matsuzaki	13	13
Mariko Watahiki	13	13

* Appointed June 21, 2022

Nomination Committee Members* in FYE2024

Member
Yuji Nishiura (Chairperson)
Jun Aoki
Masatoshi Matsuzaki
Mariko Watahiki

* Since June 21, 2023

MESSAGE FROM THE CHAIRPERSON OF THE AUDIT COMMITTEE



Daisuke Hamaguchi
Chairperson of the Audit Committee

Outlook on Long-term Issues and Direction of Initiatives

While aiming to enhance efficiency and effectiveness, the Company's Audit Committee conducts audits in close collaboration with the internal audit divisions of the Company and its subsidiaries. The Audit Committee Office was established to assist the Audit Committee, and it encompasses the Audit Committee Secretariat and company auditors. Company auditors are assigned to major subsidiaries in order to enhance the internal control of the group companies of LIXIL and to strengthen corporate governance. The Audit Committee is responsible for deciding on personnel changes and performance evaluations for Audit Committee Secretariat members and company auditors to ensure independence from executive officers.

Specific Initiatives and Progress in FYE2023

The Audit Committee convenes in the month before Board of Directors' meetings, as well as whenever necessary. In FYE2023 the committee met 14 times. Under the annual auditing plan, there were four opportunities for exchanging opinions with the representative executive officer and CEO and three interviews were held with executive officers. Members of the committee also attended important internal meetings such as those of the Board of Executive Officers, and gathered information. At the monthly Audit Committee meetings, the Corporate Audit Division and directly appointed company auditors presented audit reports and the committee members gave directions as appropriate. Also, three meetings of company auditors assigned to group companies were held to confirm the status of internal control implementation by each subsidiary and to share group-wide auditing policies. Site inspections of four subsidiaries and two factories in Japan were also conducted. For bases outside Japan, the Audit Committee received reports on the results of audits from Corporate Audit, and one member of the Audit Committee was dispatched to Thailand and Vietnam to conduct a site audit. The committee also conferred and exchanged information with local financial auditors from North America and Europe.

Twelve information-exchange sessions and other meetings were held with financial auditors, and discussions took place regarding the financial auditors' management letter, reports on the status of audits, consideration of key audit matters (KAM), and revisions to materials published by the International Ethical Standards Board for Accountants (IESBA).

Key Initiatives and Future Direction

The composition of the FYE2024 Audit Committee was decided at the Board of Directors' meeting that took place after the Annual Shareholders' Meeting held on June 21, 2023. In addition to developing a new structure, the committee will build on its FYE2023 initiatives to establish and further develop group-wide audit frameworks within and outside Japan, as well as to conduct effective, efficient, and transparent audits.

Audit Committee Members, Meetings Convened, and Attendance in FYE2023

Member	Meetings convened	Attendance
Teruo Suzuki*1 (Chairperson)	14	14
Tamio Uchibori*1	14	14
Shiho Konno	14	14
Mayumi Tamura*2	9	9

*1 Resigned June 21, 2023 *2 Appointed June 21, 2022

Audit Committee Members* in FYE2024

Member
Daisuke Hamaguchi (Chairperson)
Shigeki Ishizuka
Shiho Konno
Mayumi Tamura

* Since June 21, 2023

MESSAGE FROM THE CHAIRPERSON OF THE COMPENSATION COMMITTEE



Mariko Watahiki
Chairperson of the Compensation Committee

Outlook on Long-term Issues and Direction of Initiatives

In the Compensation Committee, we fully understand the importance of securing superior officers. After repeated discussions with the CEO and specialized external agencies on the subject of a compensation system for executive officers that is competitive by global standards, we have confirmed the following policy going forward.

- To secure essential executive officers with global roles and responsibilities who have proven skills and experience on the international stage, we will work to further align compensation levels with global standards rather than Japanese industry standards.
- Nevertheless, given the wide divergence between global and Japanese industry compensation standards, we will carefully restructure compensation with due consideration of equitability within the Company based on the degree of contribution to operating performance.
- In further stepping up our efforts to address ESG issues, we intend to increase the weighting of Stock-linked Compensation for officers in roles that make significant contributions to ESG, with the purpose of enhancing incentives to improve corporate value over the medium to long term.

Specific Initiatives and Progress in FYE2023

We have been applying the Phantom Stock Plan, which is a stock-linked monetary compensation plan for directors and executive officers, since FYE2020. In addition to this plan, we resolved to introduce the Restricted Stock Compensation Plan for executive officers from April 2023 in order to encourage them to deepen their shared interests with shareholders over their term of office and work to create value over the medium to long term. Furthermore, we introduced Stock Ownership Guidelines, which provide recommendations for the number of Company shares to be held by executive officers during their term of office.

We decided against revising the compensation of directors and executive officers for FYE2024 upward in light of the Company's performance in FYE2023.

Key Initiatives and Future Direction

We will continue our activities while constantly monitoring whether the executive compensation system is functioning appropriately as a strong motivator for the management team to work together toward achieving management goals and responding appropriately to drastically changing economic and social conditions and the evolution of the Company's management strategy.

Compensation Committee Members, Meetings Convened, and Attendance in FYE2023

Member	Meetings convened	Attendance
Daisuke Hamaguchi (Chairperson)	11	11
Tamio Uchibori*1	11	11
Yuji Nishiura	11	11
Mariko Watahiki*2	9	9

*1 Resigned June 21, 2023 *2 Appointed June 21, 2022

Compensation Committee Members* in FYE2024

Member
Mariko Watahiki (Chairperson)
Jun Aoki
Yuji Nishiura

* Since June 21, 2023

EXECUTIVE COMPENSATION

Compensation Basic Policies for Directors and Executive Officers

The compensation for directors and executive officers shall be determined in accordance with the following basic policies.

- Foster improvement of short-, medium-, and long-term business results and sustainable corporate value.
- Attract and retain the best talent who are necessary to foster business growth globally.
- Ensure a fair and reasonable decision process with regard to compensation that will provide accountability to shareholders, employees, and all stakeholders.
- Consider and discuss based on the economic and social circumstances, our business condition, and objective indexes and advice of external specialized agencies at the Compensation Committee.
- Individual compensation shall be managed in consideration of role and responsibility, business performance, experience, and difficulty of securing personnel, etc.

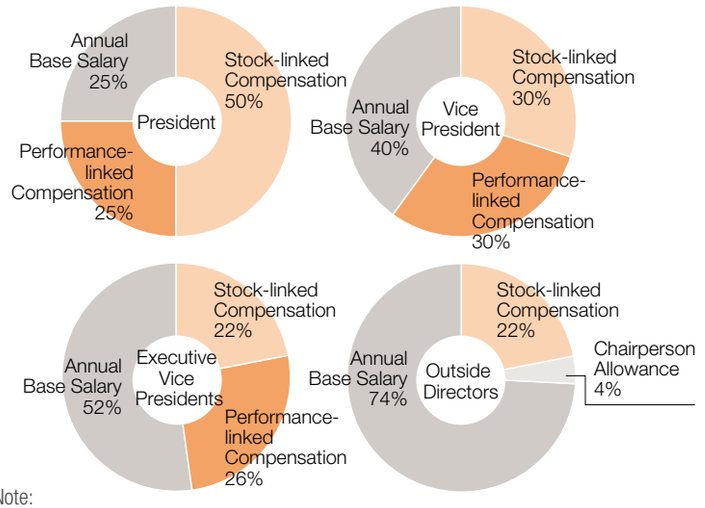
Compensation System

The compensation structures for directors who monitor and supervise the Company's management, and for executive officers who are responsible for the performance of business, shall be separate. When a director concurrently serves as an executive officer, the compensation system for executive officers shall be applied.

Compensation Mix

The Compensation Committee determines compensation mix for each officer based on role and responsibility, business performance, experience, and difficulty of securing personnel, etc. for each individual, as well as ESG action targets, etc. for each individual in line with the purpose of the compensation basic policies. The committee sets a higher ratio of Stock-linked Compensation to total compensation for officers who are expected to contribute significantly to improving corporate value from a medium- to long-term perspective, especially through structural reform or initiatives related to ESG issues.

The chart below shows the base amount for Performance-linked Compensation and Stock-linked Compensation, which are different from the actual amount paid.



Note:
The compensation of executive vice presidents and outside directors are the median values.

Annual Base Salary

Annual Base Salary shall be determined individually, based on role and responsibility, business performance, experience, and difficulty of securing personnel, etc. of each officer, while using the external specialized agencies' data for executive compensation and comparing the Company's compensation levels with those of similarly sized companies inside and outside Japan, in line with the purpose of the compensation basic policies.

Performance-linked Compensation

To encourage executive officers to work together to achieve single-year management goals and to ensure that they are fairly and equitably rewarded in accordance with the results of their performance, Performance-linked Compensation is calculated based on only company-wide performance.

Performance-linked Compensation = Base amount of Performance-linked Compensation × Payout rate according to business target achievement rate

The base amount of Performance-linked Compensation shall be calculated by multiplying the Annual Base Salary by the coefficient that is set based on the role and responsibility, etc. of each executive officer, in line with the purpose of the compensation basic policies. Business targets in FYE2023 included ROIC, core earnings, and profit for the year attributable to owners of the parent (net profit), just as they did in FYE2022. In accordance with the table below, the payout rate for FYE2023 was 0%.

There is no Performance-linked Compensation in the compensation system for outside directors, as they are in the position of monitoring and supervising management.

Business Target Achievement Rate for FYE2023

Business target items	Ratio versus all business targets	Target	Result	Business target achievement rate ([Result ÷ Target] × 100)
ROIC	40%	5.0%	1.5%	30.0%
Core earnings	30%	¥81,000 million	¥25,745 million	31.8%
Net profit	30%	¥51,000 million	¥15,991 million	31.4%
Business target achievement rate for all items (Total of each business target achievement rate multiplied by ratio versus all business targets)				30.9%

Payout Rate According to Business Target Achievement Rate

Business target achievement rate	Payout rate
Less than 50%	0%
50% or more but less than 100%	Same as business target achievement rate
100% or more but less than 150%	([Business target achievement rate – 100] × 2 + 100)%
150% or more	200%

Stock-linked Compensation

The Company has been applying the Phantom Stock Plan, which is a stock-linked monetary compensation plan for directors and executive officers, since FYE2020. The Company introduced the Restricted Stock Compensation Plan for executive officers from April 2023 in order to encourage them to deepen their shared interests with shareholders over their term of office and work to create value over the medium to long term. In principle, the Phantom Stock Plan and Restricted Stock Compensation Plan shall each account for 50% of Stock-linked Compensation for executive officers.

Stock-linked Compensation I: Phantom Stock Plan

The Company introduced the Phantom Stock Plan for three reasons: to encourage directors and executive officers to monitor, supervise, and make management decisions and thereby sustainably enhance the corporate value of the Company over the medium to long term; to further promote shared corporate value with shareholders of the Company; and to attract and retain superior personnel from around the globe by standardizing the global officer compensation system. In this compensation plan, the Company grants Phantom Stock to directors on the day of the Annual Shareholders' Meeting, and to executive officers on the first day of the fiscal year. The number of Phantom Stock granted shall be determined by dividing the base amount (which is calculated by multiplying the Annual Base Salary by the coefficient set based on the role and responsibility of each officer) by the stock price* at the time of grant in line with the purpose of the compensation basic policies. The holding period of Phantom Stock is one year for directors and three years for executive officers, and the vesting amount shall be determined by multiplying the stock price* at the time of vesting by the number of Phantom Stock held. In summary, the amount of compensation increases or decreases in accordance with changes in the stock price during the holding period.

* The average closing price of the Company's stock for the 30 business days prior to each of the grant date and the vesting date shall be used.

Stock-linked Compensation II: Restricted Stock Compensation Plan

In principle, the Company allots shares within two months of the first day of the fiscal year. The number of shares allotted shall be determined by dividing the base amount (which is calculated by multiplying the Annual Base Salary by the coefficient set based on the role and responsibility of each officer) by the stock price* at the time of allotment in line with the purpose of the compensation basic policies. The transfer restriction shall be lifted when the executive officer leaves office. However, if the executive officer remains an officer under the Companies Act, the transfer restriction shall be lifted when the executive officer retires from that position.

* The average closing price of the Company's stock for the 30 business days prior to April 1, the first day of the fiscal year, shall be used.

Stock Ownership Guidelines

The Company has introduced Stock Ownership Guidelines from FYE2024, which provide recommendations for the number of the Company's shares to be held by executive officers during their term of office.

* Representative executive officers: Three times the amount of Annual Base Salary
Other executive officers: One time the amount of Annual Base Salary

Malus and Clawback Provisions

With regard to Performance-linked Compensation and Stock-linked Compensation, if there has been any material accounting error by the Company or the Board of Directors determines that there has been a material violation, etc. by the officer concerned, the Compensation Committee may decide to reduce or cancel pre-vested compensation and/or demand the return of post-vested compensation based on such reasons.

Total Amount of Compensation by Officer Title, by Compensation Type, and Number of Officers Receiving (FYE2023)

Officer title	Total amount of compensation (¥ million)	Total amount of compensation by type (¥ million)				Number of officers receiving
		Annual Base Salary	Performance-linked Compensation	Stock-linked Compensation	Various Allowances	
Outside directors	175	140	—	35	—	8
Executive officers	1,222	575	—	423	224	8
Total	1,397	715	—	458	224	16

Notes:
1. The total amount of compensation shown above is the amount based on Japanese standards and includes compensation paid by the Company's subsidiaries, in addition to compensation paid by the Company.
2. The amount of Annual Base Salary for outside directors includes chairperson allowance.
3. Performance-linked Compensation and Stock-linked Compensation are the amounts that should be recorded as expenses for FYE2023.
4. Cost-of-living allowances and income tax allowances, etc. were paid as Various Allowances.

MESSAGE FROM THE CHAIRPERSON OF THE GOVERNANCE COMMITTEE



Masatoshi Matsuzaki
Chairperson of the Governance Committee

Outlook on Long-term Issues and Direction of Initiatives

The Governance Committee's objective is to complement the functions of and collaborate with the Board of Directors and the three statutory committees in continuously strengthening LIXIL's corporate governance.

In FYE2023, the Governance Committee primarily focused on (1) following up on the results of the effectiveness evaluation in FYE2022; (2) planning and executing the effectiveness evaluation in FYE2023; (3) ensuring the Board of Directors' compliance with Japan's revised Corporate Governance Code; and (4) reviewing disclosure materials and advising on improvements.

Specific Initiatives and Progress in FYE2023

(1) In following up on the results of the effectiveness evaluation in FYE2022, outside directors discussed which topics the Board should table for consideration in order to sustainably enhance corporate value. The conclusions of those discussions were shared with executives and reflected in the Board agenda.

(2) In planning and executing the effectiveness evaluation in FYE2023, the committee formulated questions to confirm progress toward the next phase of the restructuring of governance, and implemented the evaluation. Based on the results of the evaluation, the committee was able to confirm progress, including the qualitative improvement of discussions at Board meetings, and share issues to address, which are presented below.

(3) In ensuring the Board of Directors' compliance with Japan's revised Corporate Governance Code, the committee reviewed matters requiring a response from the Board under the revised code, such as the Board's involvement in addressing sustainability issues.

(4) In reviewing disclosure materials and advising on improvements, outside directors discussed improvements with the personnel in charge regarding the content of the notice of convocation of the Annual Shareholders' Meeting, the integrated report, and the annual securities report. Suggestions for the integrated report included those regarding the method of presentation for financial targets and LIXIL's value creation process, and consistency when discussing business strategy.

Key Initiatives and Future Direction

The effectiveness evaluation in FYE2023 identified several issues to follow up on: (1) establishment of an ideal way (i.e., best practices) of oversight; (2) the establishment of a plan for the smooth succession of outside directors; and (3) the functions required of the Company's Audit Committee. During FYE2024, the Governance Committee will devote a significant amount of time to deepening discussions on each issue between committee members and the persons with responsibility for those issues.

Governance Committee Members, Meetings Convened, and Attendance in FYE2023

Member	Meetings convened	Attendance
Masatoshi Matsuzaki (Chairperson)	7	7
Tamio Uchibori*1	7	6
Shiho Konno	7	7
Teruo Suzuki*1	7	7
Mayumi Tamura*2	5	5
Yuji Nishiura	7	7
Daisuke Hamaguchi	7	7
Mariko Watahiki	7	7

*1 Resigned June 21, 2023 *2 Appointed June 21, 2022

Governance Committee Members* in FYE2024

Member
Masatoshi Matsuzaki (Chairperson)
Jun Aoki
Shigeki Ishizuka
Shiho Konno
Mayumi Tamura
Yuji Nishiura
Daisuke Hamaguchi
Mariko Watahiki

* Since June 21, 2023

INTERNAL CONTROL SYSTEMS AND COMPLIANCE

Risk Management

Internal Control Systems

LIXIL and its group companies build, operate, and evaluate internal control systems to ensure the appropriateness and efficiency of operations, as well as the reliability of financial reporting in order to enhance corporate value. In addition, we are strengthening our group-wide operational management system through risk awareness and, as a corporate group that emphasizes compliance management we are building various systems that comply with laws and regulations. As part of the system, the Chief Legal and Compliance Officer, who is responsible for legal, compliance, risk management, and corporate audit, is structurally independent of our business lines in order to promote robust risk management.

Enterprise Risk Management (ERM)

The LIXIL group strives to stably and continuously develop its business through the implementation and operation of ERM for the entire group. Risks related to crises that require immediate response when they occur are also controlled through crisis management as part of ERM.

Risk Management (RM)

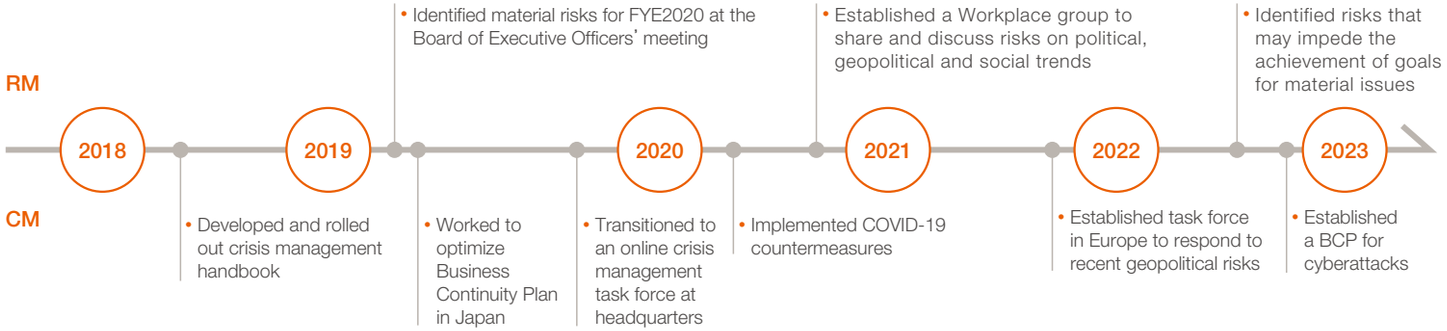
The LIXIL group promotes a system of managing risks whereby leaders identify risks that may influence the achievement of management targets and take on the role of risk owner responsible for addressing and managing them. Risks are categorized into strategic risks and operational risks. For strategic risks, efforts are made to collaborate with relevant departments to ensure the framework encompasses a wide range of perspectives. This includes medium- to long-term perspectives such as management policies, business strategies, and Impact Strategy, as well as the perspectives of stakeholders. By identifying and assessing risks that may hinder the achievement of our goals for material issues, risks are prioritized as the basis for taking risk measures. The risk management system established for operational risks is autonomous, whereby each organization and region holds meetings or sets agendas regularly, or as necessary, to discuss and respond to risks, which they then report to headquarters.

Crisis Management (CM)

A crisis management framework has been established at each group company. We develop crisis management policies that enable a swift initial response and escalation when a crisis occurs. We have also put in place frameworks for the establishment of crisis task forces whenever necessary at various levels, such as at headquarters, departments, or local business premises.

Understanding the importance of cybersecurity, the LIXIL group has established and operates the LIXIL Computer Security Incident Response Team (LIXIL-CSIRT) to minimize the impact of cyberattacks, which are becoming increasingly sophisticated. To ensure a quick response, we constantly monitor computers and networks to detect problems at an early stage and analyze the impact and cause of the problems. We have also established a Business Continuity Plan (BCP) for possible cyberattacks, as well as a crisis management system that includes emergency reporting criteria and reporting flows, which enables a coordinated response among departments.

Risk Management Initiatives (Years ended March 31)



The following are available on our corporate website.

Business Risks
www.lixil.com/en/investor/strategy/risks.html

Intellectual Property Strategy
www.lixil.com/en/investor/strategy/ip_index.html

Material Issues
www.lixil.com/en/impact/structure/issues.html

Compliance

LIXIL Code of Conduct

The LIXIL Code of Conduct (the "Code of Conduct") is a set of rules to be adhered to by all officers and employees worldwide in order to undertake business activities appropriately and with shared values and ethics. The Code of Conduct is available in 19 languages and is regularly updated. Every year, the Company conducts training and requires all company officers and employees to pledge to comply with the terms of the Code of Conduct. Furthermore, global policies and detailed rules aligned with the Code of Conduct have been put in place for specific fields posing a high risk.

For further details regarding the Code of Conduct, please visit our corporate website.

www.lixil.com/en/about/governance/pdf/LIXIL_CoC_en.pdf

LIXIL Human Rights Principles

The LIXIL group reviewed the LIXIL Human Rights Principles in June 2021, and made revisions to strengthen governance and efforts to respect human rights, and to improve the transparency of processes for addressing human rights issues and fulfilling accountability responsibilities.

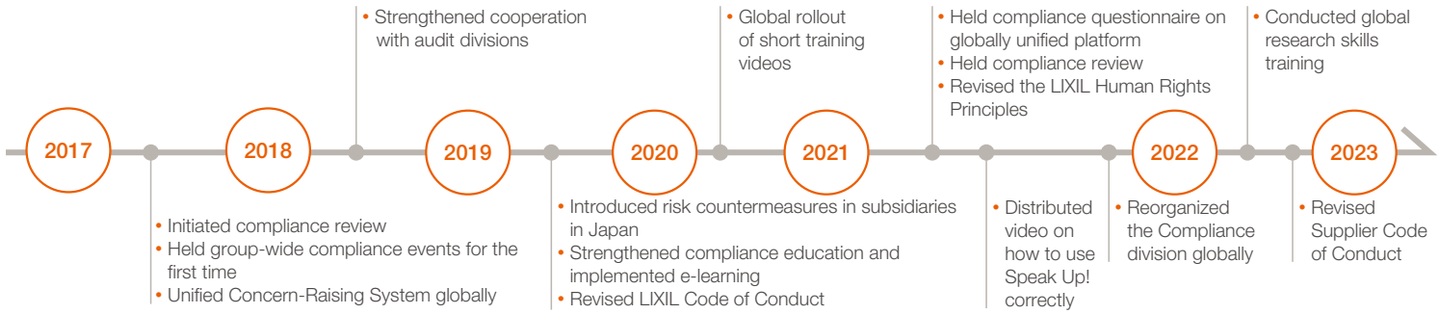
For further details regarding the Human Rights Principles, please visit our corporate website.

www.lixil.com/en/impact/society/h_rights.html

Compliance System

In addition to the Compliance Committees of the LIXIL group and affiliates in Japan, Compliance Committees have been established in each region. These committees provide a platform for reviewing initiatives and discussing countermeasures. Following the transition to a new system in January 2022, LIXIL has worked to enhance risk management and further solidify the compliance culture and system of LIXIL and its group companies. The new system promotes efficiency and standardization of programs at the global level.

Compliance Initiatives (Years ended March 31)



Corporate Culture

LIXIL group management is working to raise compliance awareness and embed a culture of compliance through measures such as video messages about compliance from management. We also conduct educational events such as contests in Japan and globally so that employees can increase their compliance awareness in an engaging setting on their own accord.

Education and Training Programs

The LIXIL group provides training on compliance and on laws and regulations for new employees, new managers, and executives. Programs are also conducted for all officers and employees on global policies. The LIXIL group has developed effective education and training programs suited to the risks of each area. In addition, the LIXIL group publishes newsletters and distributes information via the Workplace platform, and strives to continue cultivating employees' knowledge and awareness of compliance.

Review Process

Compliance Reviews are conducted regularly by management to check the compliance systems of their own organizations. Compliance Surveys are also completed by all officers and employees to gain an understanding of the extent to which compliance culture has been embraced within the LIXIL group. The results are reported to the compliance committees and reflected in policies to promote consistent initiatives.

Concern-raising System "Speak Up!"

We operate the 24-hour concern-raising system Speak Up! with the aim of gathering information on compliance breaches, taking measures to prevent fraudulent and unlawful behavior, and responding quickly where action is required. Since 2017, the number of compliance concerns received has totaled more than 300 per year for Japan and international operations combined. To facilitate greater understanding of how to use it and how the process works after a report is made, we produced animated videos in 2021 and 2022. We also periodically conduct programs to publicize the system. When a concern is reported, depending on the nature of the concern, the relevant department conducts an investigation, analyzes trends, and takes proactive measures such as organizational improvements and employee education to prevent wrongdoing and violations.

Human Rights: See p.60
Responsible Supply Chain Management: See p.62

Internal Audit

How LIXIL and Its Group Companies See Internal Audit

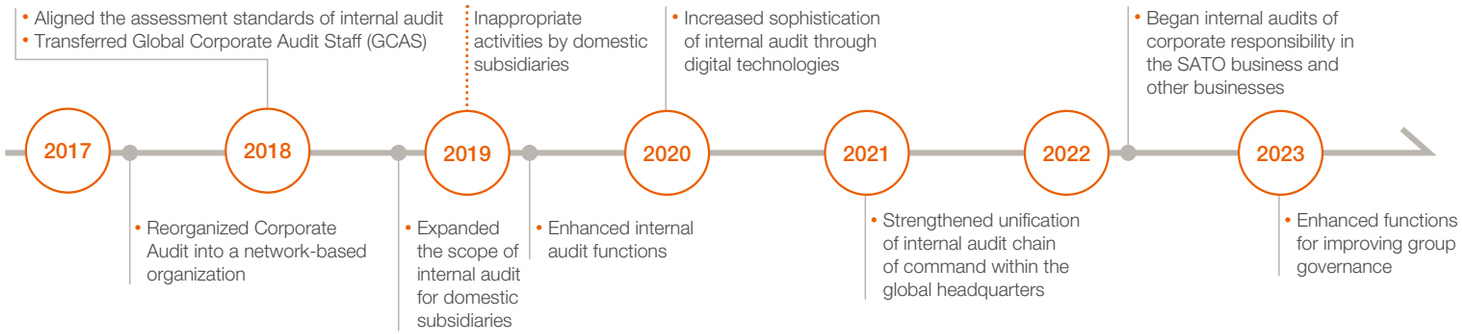
Corporate Audit, a corporate function, is responsible for managing the internal audit organizations of all LIXIL group companies in Japan and international markets, and ensures all of those audits are conducted in a unified and comprehensive manner by integrating the internal audit chain of command. (At the end of May 2023, the number of people involved in the internal audit organizations of all LIXIL group companies totaled 57.) Corporate Audit is responsible for carrying out traditional internal audit processes such as accounting audits, operational audits, and assessment of internal controls. Additionally, it continuously reviews internal audit systems and processes in order to help achieve sustainable group-wide growth, strengthen governance as well as internal control, and contribute to the development of human resources.

Corporate Audit's overall mission is to continuously and quantitatively provide value that contributes to strengthening the management foundation and quickly addresses changes in the internal and external environment through internal audit operations.

Initiatives to Ensure the Effectiveness of Internal Audits

All audit organizations of LIXIL group companies, including our global teams, report to the leader of Corporate Audit, who, in turn, ensures detailed information is shared in a timely manner. Furthermore, Corporate Audit reports audit results each quarter to the Board of Executive Officers (management meeting comprised of executive officers) and attends regular meetings of the Audit Committee (comprised of outside directors), reporting on audit results, specific risk information, awareness of issues relating to group governance, and other matters directly to the Audit Committee. In terms of organization, Corporate Audit operates under the executive officer in charge of internal audit, acts in close cooperation with the Audit Committee while taking into account the committee's instructions and advice, and makes regular reports directly to the external auditors. This structure ensures the independence and objectivity of audit functions. We plan to further improve group governance by increasing opportunities for internal audits to evaluate effectiveness at the request of the Audit Committee.

Internal Audit Initiatives (Years ended March 31)



Initiatives Launched to Audit Compliance and Non-financial Information

Corporate Audit has been emphasizing internal audit programs related to compliance in recent years. This has involved enhanced cooperation with the Compliance Department to confirm that group companies are properly managed to preclude violations of laws and regulations, reduce corporate risks and increase reliability. In addition, Corporate Audit in Europe has been piloting an Environment, Health and Safety (EHS) program. To supplement design-oriented third-party external certification, local members are conducting trials of sample-based audits. Initiatives in these areas require a medium- to long-term outlook, and will help prevent fraudulent acts and corruption, improve the integrity of operations, and enhance compliance awareness among management and employees.

04
DATA

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CONSOLIDATED 11-YEAR SUMMARY

LIXIL Corporation and Consolidated Subsidiaries

(¥ million)

	JGAAP		IFRS								
Years ended March 31	2013	2014	2015	2016	2017	2018	2019	2020*6	2021*6	2022	2023
Results of Operations											
Net sales (JGAAP) / Revenue (IFRS)	¥1,436,395	¥1,628,658	¥1,705,427	¥1,890,450	¥1,633,229	¥1,829,344	¥1,692,432	¥1,514,449	¥1,378,255	¥1,428,578	¥1,495,987
Operating income (JGAAP) / Core earnings (IFRS)	50,485	69,080	51,722	70,069	89,781	76,046	54,485	52,290	57,288	64,875	25,745
Operating income margin (JGAAP) / Core earnings margin (IFRS) (%)	3.5	4.2	3.0	3.7	5.5	4.2	3.2	3.5	4.2	4.5	1.7
Operating profit (IFRS)			48,041	39,011	69,251	59,107	49,011	32,010	35,842	69,471	24,903
Net income (loss) (JGAAP) / Profit (loss) for the year attributable to owners of the parent (IFRS)*1	21,347	20,952	30,864	(25,605)	42,503	54,581	(52,193)	12,518	33,048	48,603	15,991
Research and development expenses	14,025	17,380	18,211	25,523	26,089	27,875	28,188	27,508	23,975	22,864	23,536
Capital expenditures	73,795	64,321	61,454	72,083	68,215	69,953	67,639	68,635	68,498	48,634	55,349
Depreciation and amortization	44,736	49,168	50,404	62,205	60,701	64,661	68,502	105,557	84,786	80,722	81,900
EBITDA*2	100,627	124,822	102,126	132,274	146,441	140,707	120,053	134,832	137,895	145,597	107,645
Cash Flows											
Cash flows from operating activities	28,432	83,533	98,563	121,085	132,531	116,362	69,351	157,701	151,043	118,296	15,005
Cash flows from investing activities	(12,397)	(218,333)	(119,041)	19,122	(58,052)	(52,606)	(72,328)	(41,314)	(54,151)	(24,805)	(29,319)
Cash flows from financing activities	(31,753)	153,144	46,618	(154,403)	(79,899)	(43,843)	1,579	(153,285)	(93,425)	(108,094)	19,839
Cash and cash equivalents, end of year	114,662	139,039	147,708	129,646	121,563	138,751	141,421	95,862	111,061	100,404	106,677
Financial Position											
Total assets	1,465,689	1,786,294	1,915,427	2,130,120	2,042,165	2,107,131	2,059,544	2,091,529	1,741,814	1,782,882	1,853,534
Net assets (Net of non-controlling interests) (JGAAP) / Equity attributable to owners of the parent (IFRS)*3	561,161	593,487	583,747	524,806	547,244	616,897	533,656	502,165	552,271	612,385	625,433
Net assets (JGAAP) / Total equity (IFRS)	566,312	601,795	590,855	537,308	559,431	649,573	567,167	535,137	554,767	614,968	627,720
Net interest-bearing debt	307,089	463,479	559,971	697,413	638,345	549,159	584,537	736,689	484,444	424,299	511,723
Per Share Data											
Net income (loss) per share (JGAAP) / Earnings (loss) per share (IFRS)*1 (EPS) (¥)	¥73.42	¥72.06	¥105.80	¥(89.33)	¥148.01	¥189.13	¥(179.98)	¥43.15	¥113.92	¥167.21	¥55.54
Net assets per share (JGAAP) / Equity attributable to owners of the parent per share (IFRS) (BPS) (¥)	1,930.02	2,041.34	2,038.56	1,828.84	1,902.18	2,128.77	1,839.59	1,730.99	1,902.89	2,106.30	2,178.77
Dividends per share (¥)	40	55	60	60	60	65	70	70	75	85	90
Key Ratios											
EBITDA to sales ratio*2 (%)	7.0	7.7	6.0	7.0	9.0	7.7	7.1	8.9	10.0	10.2	7.2
ROE (%)	3.9	3.6	5.3	(4.6)	7.9	9.4	(9.1)	2.4	6.3	8.3	2.6
ROA (%)	1.4	1.3	1.7	(1.3)	2.0	2.6	(2.5)	0.6	1.7	2.8	0.9
Total assets turnover (times)	1.0	0.9	0.9	0.9	0.8	0.9	0.8	0.7	0.7	0.8	0.8
Equity ratio (JGAAP) / Ratio of equity attributable to owners of the parent to total assets (IFRS) (%)	38.3	33.2	30.5	24.6	26.8	29.3	25.9	24.0	31.7	34.3	33.7
Dividend payout ratio (%)	54.5	76.3	56.7	—	40.5	34.4	—	162.2	65.8	50.8	162.0
Net debt-to-equity ratio*4 (%)	54.7	78.1	95.9	132.9	116.6	89.0	109.5	146.7	87.7	69.3	81.8
Number of employees*5	45,602	51,419	—	60,677	59,248	61,140	62,940	61,634	51,879	51,640	51,501
Stock Indicators											
Stock price (closing), end of year (¥)	¥1,858	¥2,846	¥2,847	¥2,295	¥2,825	¥2,376	¥1,478	¥1,345	¥3,075	¥2,290	¥2,177
Market capitalization	581,655	890,952	891,265	718,459	884,378	743,817	463,086	421,414	963,456	717,501	625,038
Price earnings ratio (times)	25.3	39.5	26.9	—	19.1	12.6	—	31.2	27.0	13.7	39.2
Price book-value ratio (times)	0.96	1.39	1.40	1.25	1.49	1.12	0.80	0.78	1.62	1.09	1.00

*1 Figures are after amortization of goodwill (JGAAP).

*2 EBITDA is calculated under JGAAP as operating income + depreciation and amortization + goodwill amortization, and under IFRS as core earnings + depreciation and amortization.

*3 Equity attributable to owners of the parent is calculated under JGAAP as total net assets – stock acquisition rights – non-controlling interests.

*4 The net debt-to-equity ratio is calculated as net interest-bearing debt ÷ total equity based on the fiscal year-end.

*5 The number of employees from FYE2016 is on an IFRS basis, the definition of which differs from the number under JGAAP.

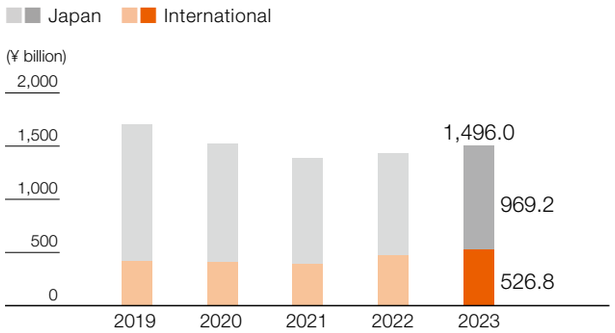
*6 In line with the Company's decision to sell the shares of Permasteelisa S.p.A. and LIXIL VIVA Corporation, the operations of Permasteelisa and its subsidiaries and the businesses of LIXIL VIVA have been classified as discontinued operations. For the purposes of comparison, figures for FYE2020 reflect the reclassification.

Note: Under JGAAP, figures of less than ¥1 million are truncated, while under IFRS, figures of less than ¥1 million are rounded.

FINANCIAL HIGHLIGHTS

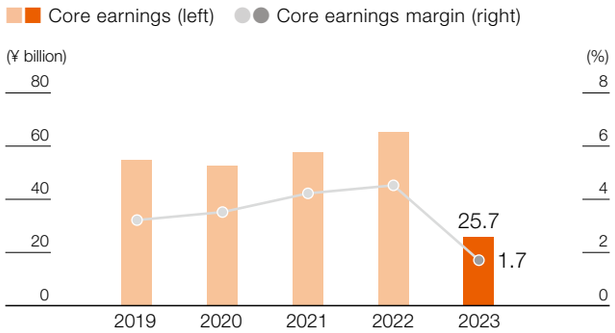
LIXIL Corporation and Consolidated Subsidiaries (Years ended March 31)

Revenue



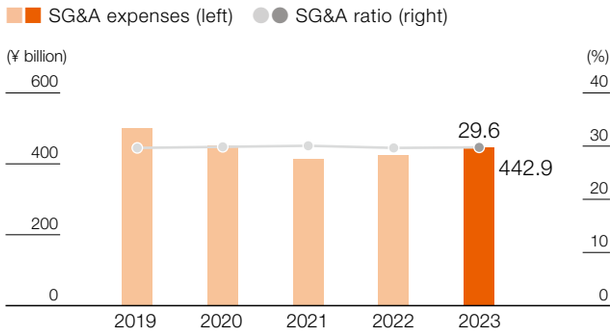
Revenue increased by 4.7% year on year to ¥1,496.0 billion. Factors included the effect of foreign currency translation resulting from the weaker Japanese yen, as well as the effect of price optimizations in Japan and sales growth of products for the renovation market.

Core earnings / Core earnings margin



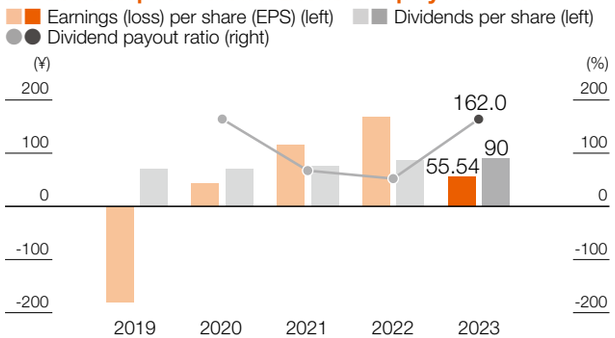
Core earnings decreased by 60.3% year on year to ¥25.7 billion. Factors included rising component costs, logistics system constraints in Europe, and inventory adjustments in the United States.

SG&A expenses / SG&A ratio



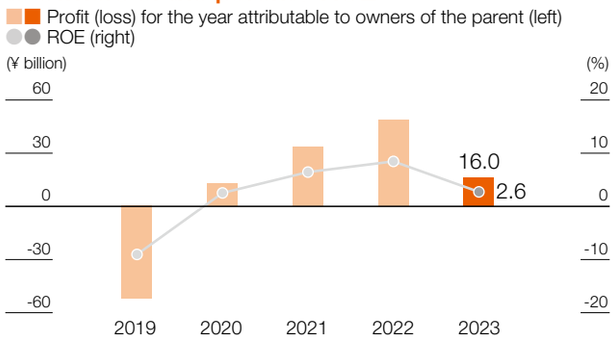
SG&A expenses increased by 4.9% year on year to ¥442.9 billion, and the SG&A ratio was essentially unchanged. Despite productivity improvements and other cost reduction initiatives, factors included increases in sales expenses associated with the resumption of sales activities and additional increases in logistics costs.

Earnings (loss) per share (EPS) / Dividends per share / Dividend payout ratio



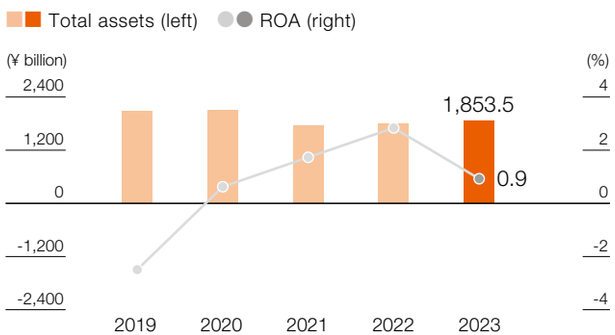
Earnings per share decreased year on year by ¥111.67 to ¥55.54, while annual dividends increased by ¥5 to ¥90 per share.

Profit (loss) for the year attributable to owners of the parent / ROE



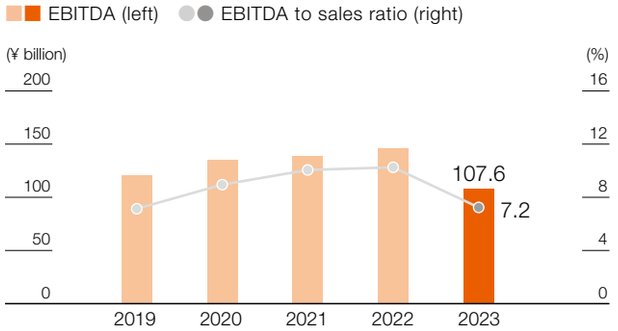
Profit for the year attributable to owners of the parent decreased by ¥32.6 billion year on year to ¥16.0 billion, primarily because of lower core earnings.

Total assets / ROA



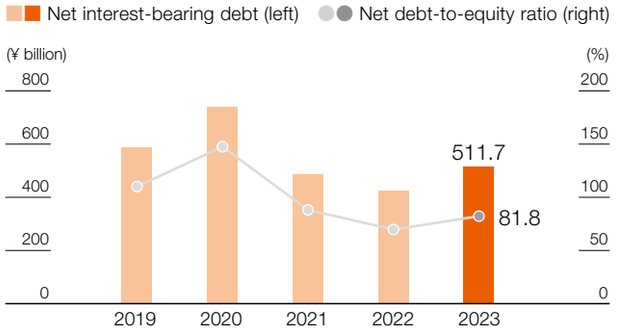
Total assets increased by ¥70.7 billion year on year to ¥1,853.5 billion. Factors included the effect of foreign currency translation resulting from the weaker yen, and an increase in inventories based on the need to avoid supply chain disruptions.

EBITDA / EBITDA to sales ratio



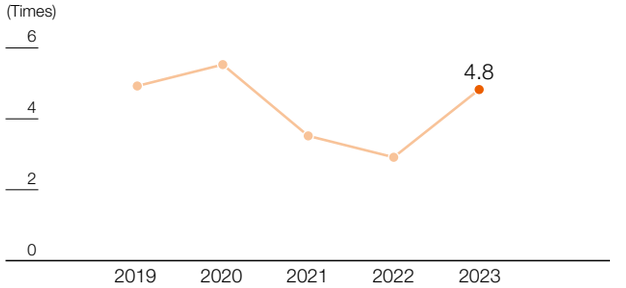
EBITDA to sales ratio decreased by 3.0 percentage points year on year to 7.2%, primarily because of lower core earnings amid the challenging external environment.

Net interest-bearing debt / Net debt-to-equity ratio



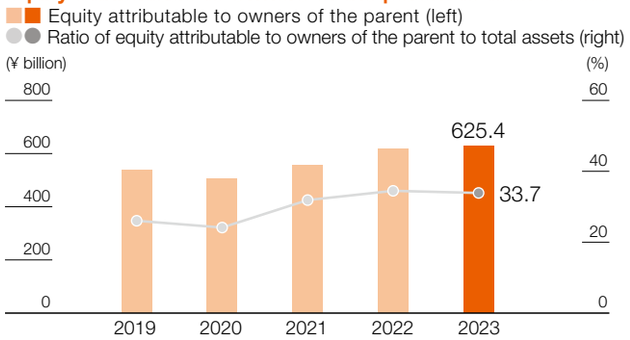
Net interest-bearing debt increased by ¥87.4 billion year on year to ¥511.7 billion due to factors including fund-raising to accelerate payments to suppliers.

Net interest-bearing debt-to-EBITDA ratio



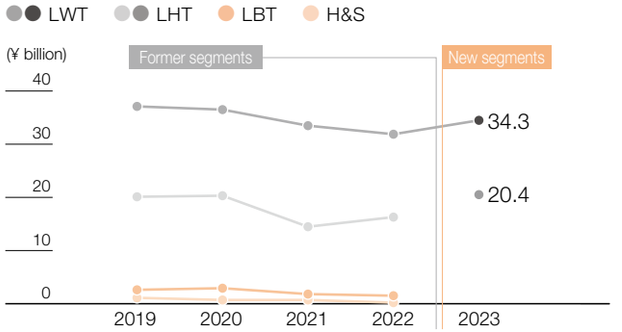
Net interest-bearing debt-to-EBITDA ratio increased from 2.9 times to 4.8 times. Factors were the increase in net interest-bearing debt and the decrease in profitability.

Equity attributable to owners of the parent / Ratio of equity attributable to owners of the parent to total assets



Ratio of equity attributable to owners of the parent to total assets decreased by 0.6 percentage points to 33.7%. Factors included the decrease in business profitability and a ¥93.7 billion increase in interest-bearing debt following new bond issues.

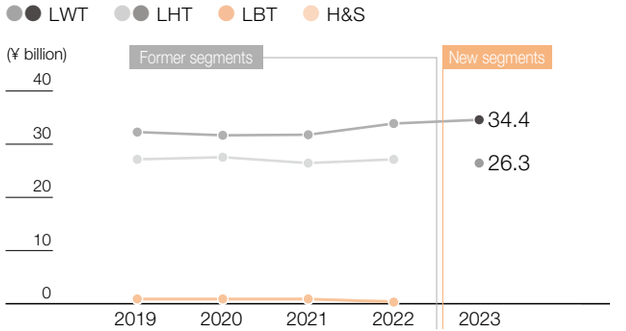
Capital expenditures by business segment



Capital expenditures increased primarily because of investment in new product development in core businesses, the establishment of new distribution facilities in international markets, increased IT investment, and headquarters relocation expenses.

Notes: 1. Excluding the impact of IFRS 16 Leases applied from FYE2020
2. LWT: LIXIL Water Technology, LHT: LIXIL Housing Technology, LBT: LIXIL Building Technology, H&S: Housing & Services Business
3. Changed reporting segments from FYE2023

Depreciation by business segment



Depreciation was mainly associated with developing LIXIL's group-wide IT systems and maintaining and upgrading facilities. Depreciation at LWT increased due to the ongoing development of products for the Japanese and international markets, and decreased at LHT because it completed the accelerated depreciation associated with the streamlining of plant assets during the fiscal year.

Notes: 1. Excluding the impact of IFRS 16 Leases applied from FYE2020
2. Changed reporting segments from FYE2023

NON-FINANCIAL HIGHLIGHTS

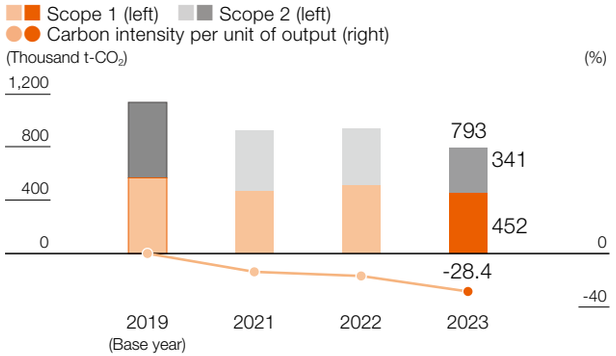
(Years ended March 31)

LIXIL's sustainability policies and initiatives are on p.47.
In August 2023, we plan to publish a data book on our website with a third-party assurance of these figures.

www.lixil.com/en/impact/data/performance.html

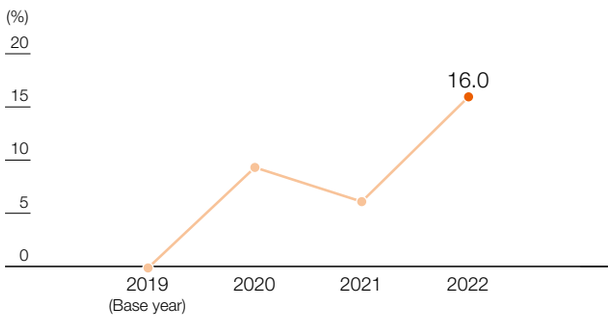
Environment (As of June 2023. Figures not yet finalized.)

CO_2 emissions from operational activities (Scope 1 and 2)*1



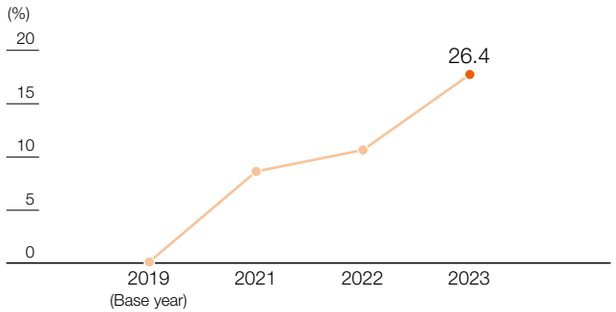
By seeking to increase energy efficiency and utilize renewable energy to further reduce CO_2 emissions, we achieved a 29.9% reduction in CO_2 emissions and a 28.4% reduction in emission intensity per unit of output. (Benchmark: FYE2019)

Water use efficiency in our operations*1



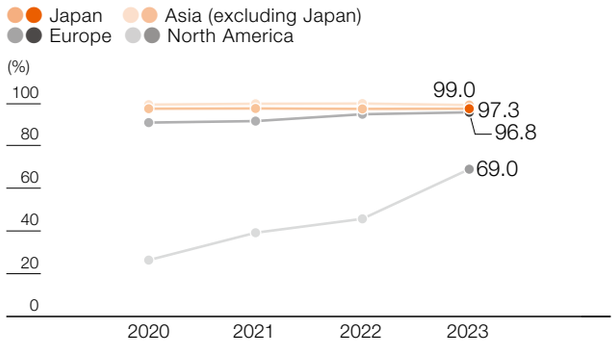
By promoting efficient water use and recycling, we continued to reduce water intake and discharge, resulting in a 16% improvement in water use efficiency. (Benchmark: FYE2019)

Ratio of electricity usage from renewable energy sources*1



By switching to renewable energy for electricity used at our business sites, we achieved a ratio of 26.4% at the end of FYE2023.

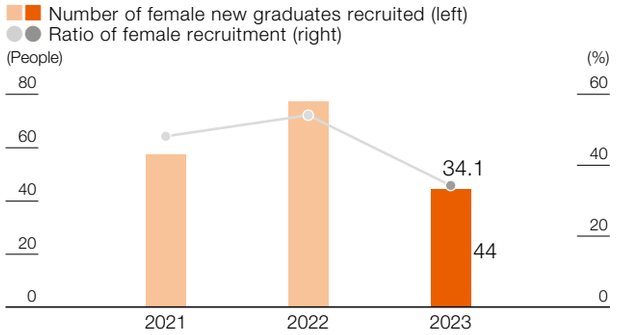
Waste recycling ratio*1



By minimizing the use of newly introduced resources and by promoting reuse and recycling, we achieved a company-wide recycling rate of 88.1%, with the recycling rate in North America more than doubling from FYE2019.

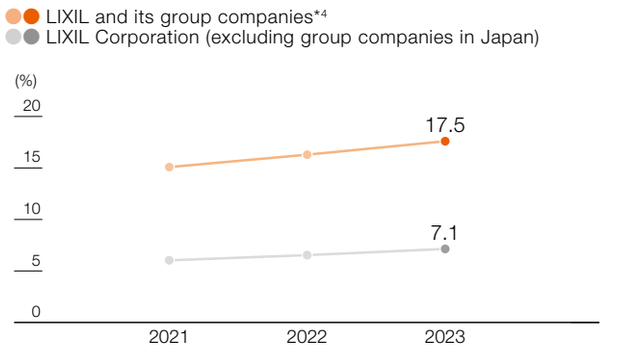
Social (As of June 2023. Figures not yet finalized.)

Ratio of female new graduate recruitment*2



We continue to focus on attracting high-potential female candidates and aim to achieve gender parity in new graduate recruitment in Japan.

Ratio of female managers*3



We have set a target of 30% female managers across the organization by FYE2030.

Ratio of male employees who took childcare leave*3

LIXIL Corporation	77%

Note: Including LIXIL's own paid childcare leave system for male employees

We are aiming to achieve a 100% acquisition rate for paternity and male parental leave by FYE2025.

Gender pay gap*3

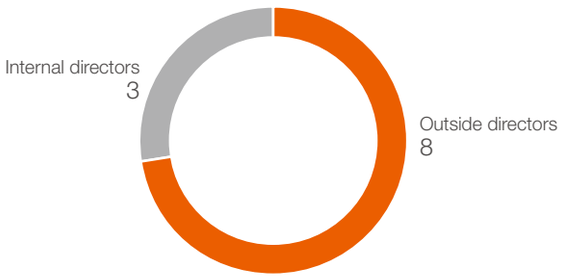
	All workers	Regular employees	Contract workers
LIXIL Corporation	57.4%	63.6%	95.9%

Note: Pay includes base salary, overtime, other allowances and bonus. Regular employees include managers, non-managers, senior employees, and employees assigned from LIXIL to other companies. Employees assigned from other companies to LIXIL are excluded. Contract workers include part-time and temporary employees. Temporary staff hired through agencies are excluded.

We are replacing the existing system with our new personnel system in a phased manner from April 2022 and aiming to bring about a compensation scheme that reflects job value.

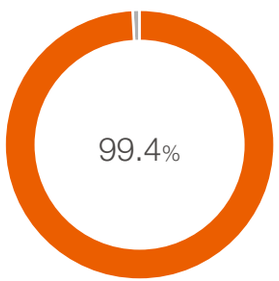
Governance

Number and ratio of outside directors (FYE2023)



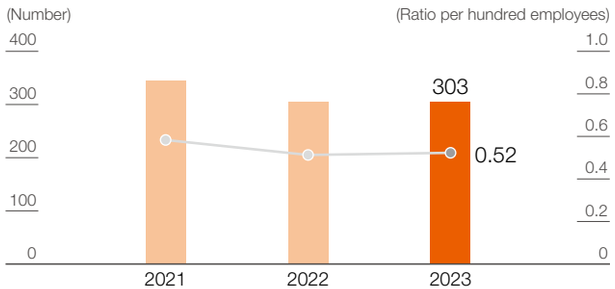
The Board of Directors consists of eleven members including eight outside directors and three internal directors (including four women). The ratio of independent outside directors was over 70%.

Attendance rate at Board of Directors' meetings (FYE2023)



The Board of Directors met 15 times in FYE2023. LIXIL's Corporate Governance General Policy requires a minimum attendance rate of 75% at Board meetings.

Reports of possible compliance issues



We collect information on any compliance violations, ensure early action on any wrongdoings and violations, and implement preventive measures. No compliance violations that have a significant impact on the Company, including serious violations of laws and regulations occurred.

*1 Scope of coverage: LIXIL Corporation and its group companies (production and non-production bases in Japan, and production bases outside Japan)

*2 Scope of coverage: LIXIL Corporation (excluding group companies in Japan) Ratio of female candidates with college or graduate degrees hired.

*3 Directly hired employees only.

*4 Excludes companies sold during FYE2023 and consolidated subsidiaries with less than 100 employees in Japan. (Calculated based on the job grade system of each operating company.)

REVIEW AND ANALYSIS OF OPERATING RESULTS AND FINANCIAL POSITION

In the fiscal year ended March 31, 2023 (FYE2023), the Japanese economy faced downward pressure from global monetary tightening policies, the ongoing depreciation of the Japanese yen caused by factors such as the widening interest rate gap between Japan and the United States, in addition to the rise in components and energy prices. This in turn had an impact on consumer confidence as consumers became concerned about longer-term inflation. The outlook for the housing sector remains uncertain, with the number of new housing starts remaining sluggish. Although rental properties and detached houses for sale displayed steady performance, owner-occupied housing starts continued to decline due to concerns about rising mortgage interest rates and the impact of high construction material prices. On the other hand, demand is expected to be stimulated by housing energy-saving assistance measures that are among the largest ever seen. One of these measures is the creation of a government-led subsidy program for advanced window renovation projects.

The global economy continues to be impacted by the rise in component and energy prices that are a consequence of the protracted conflict between Russia and Ukraine. In addition, there are still concerns about a possible downturn in economic recovery due to geopolitical risks such as the rapid monetary tightening to control inflation in the United States and Europe, as well as the slowdown in economic growth due to the reaction to zero-COVID policies and stagnation of the real estate market in China. The situation must be closely monitored.

Nevertheless, although COVID-19 continues to have an impact in Japan and in international markets, economies around the world are expected to gain steam as society adapts to a post-COVID reality and the resumption in normal economic activities accelerates with the significant relaxation of behavioral restrictions.

Operating Results

Overall Business Results in FYE2023

In FYE2023, we faced the most challenging business environment that we had encountered for quite some time due to the sharp depreciation of the Japanese yen, increases in component costs, and supply chain constraints in Europe that continued into the third quarter. While revenue increased ¥67.4 billion year on year to ¥1,496.0 billion due to factors including the depreciation of the yen and price optimization, core earnings decreased ¥39.1 billion year on year to ¥25.7 billion due to the lag between the time of cost increases and the time we were able to effect price optimization, which meant that we were unable to fully offset cost increases in the full-year results. The main factors behind these results were our inability to fully reflect higher raw material and component costs in product prices during the fiscal year, especially in Japan, where the yen depreciated rapidly, and the impact on sales and production caused by weakening demand amid rising prices in many parts of the world.

We believe that each of these challenges to restoring profitability must be addressed separately with respect to firstly the increase in variable costs, and secondly the increase in fixed costs. First, it is essential to reflect higher variable costs, such as raw material and component costs, in selling prices. In that respect, we have tried to be as agile as possible and in the fourth quarter we began to see signs that those efforts are finally starting to produce results. If we foresee further increases in variable costs, we will work to restore and enhance profitability through flexible pricing in line with those increases.

On the other hand, these responses have led to a softening of demand in many parts of the world due to the effects of inflation. Declining sales volumes slow the rate at which cost increases can be reflected in prices and, from the perspective of production, raise fixed costs per product. Unlike with variable costs, it is not always appropriate to pass on higher fixed costs through prices, so companies need to make greater efforts to reduce fixed costs and expand sales of high-value-added products.

Overview of Financial Results for FYE2023

(¥ billion)

	FYE2022	FYE2023	Increase/Decrease	Rate of change
Revenue	1,428.6	1,496.0	+67.4	+4.7%
Gross profit	486.9	468.6	-18.2	-3.7%
(%)	34.1%	31.3%	-2.8pp	—
Selling, general and administrative expenses	422.0	442.9	+20.9	+4.9%
Core earnings*1	64.9	25.7	-39.1	-60.3%
(%)	4.5%	1.7%	-2.8pp	—

*1 Equivalent to operating profit in JGAAP

Therefore, especially in FYE2024, our top financial priorities are to further reduce fixed costs (i.e., adopt an asset-light approach) through our ongoing activities to improve capital efficiency using return on invested capital (ROIC) management and control, as well as measures to increase free cash flow by optimizing inventory levels, for the purposes of development, production, and sales of high-value-added products.

Operating Results in FYE2023

The financial results for LIXIL Corporation and its consolidated subsidiaries (together, "the LIXIL group") for FYE2023 are as follows. Revenue was ¥1,496.0 billion (up 4.7% year on year), as we were able to offset the negative impact of factors such as supply chain disruptions in our international business and declining demand in the United States and China. The positive factors include the effect of foreign currency translation resulting from the weaker yen and increased revenue as price optimization measures in the Japan business took effect and sales of products for renovation purposes expanded. In terms of profit, continued efforts to implement structural reforms, price optimization, and measures to improve profitability both in the Japan business and in the international business were not enough to offset challenging factors such as increases in component costs and energy prices, increased costs associated with supply chain constraints in Europe, softening demand in the United States amid sharply rising interest rates, and sluggish market conditions in China. Consequently, core earnings were ¥25.7 billion (down 60.3% year on year), operating profit was ¥24.9 billion (down 64.2% year on year), and profit before tax from continuing operations was ¥19.8 billion (down 70.6% year on year), each of which represents a significant decrease.

As a result, profit for the year attributable to owners of the parent after deducting non-controlling interests totaled ¥16.0 billion (down 67.1% year on year).

Overview of Financial Results by Segment

(¥ billion)

		FYE2022	FYE2023	Increase/Decrease	Rate of change
Water Technology Business (LWT)	Revenue	862.2	915.3	+53.1	+6.2%
	Core earnings	76.6	47.3	-29.4	-38.3%
	(%)	8.9%	5.2%	-3.7pp	—
Housing Technology Business (LHT)*1	Revenue	584.2	598.2	+14.0	+2.4%
	Core earnings	31.7	19.4	-12.3	-38.9%
	(%)	5.4%	3.2%	-2.2pp	—
Consolidation adjustments, etc.*2	Revenue	-17.8	-17.5	+0.3	—
	Core earnings	-43.4	-40.9	+2.5	—
Total	**Revenue**	**1,428.6**	**1,496.0**	**+67.4**	**+4.7%**
	Core earnings	**64.9**	**25.7**	**-39.1**	**-60.3%**
	(%)	**4.5%**	**1.7%**	**-2.8pp**	**—**

*1 In the figures for LHT, the classification criteria for Japan and international financial results for companies that operate multiple global businesses were changed from the first quarter of FYE2023. Financial results for FYE2022 have also been restated to reflect this change.
*2 "Consolidation adjustments, etc." correspond to the difference between the total of Japan and international revenue/core earnings, and the figure shown in the "Total" row.

Water Technology Business (LWT)

Despite a continued low number of new housing starts, Water Technology Business (LWT) in Japan secured revenue slightly above that in FYE2022 as a result of the emerging effects of price optimization and strong sales of renovation-related products. Furthermore, revenue in the international business grew year on year due to factors including the recovery in economic activity in Asia Pacific, which had previously been sluggish due to the COVID-19 pandemic, as well as the effect of foreign currency translation resulting from the weak yen, despite negative factors in the external environment such as softening demand against the backdrop of interest rate hikes in the United States and the effect of the delayed recovery in the Chinese economy due to the zero-COVID policies. As a result, LWT saw revenue increase to ¥915.3 billion (up 6.2% year on year).

At the same time, despite positive results such as an increase in gross profit due to the effects of price optimization in Japan and the international business and an increase in the proportion of renovation products and mid- to high-end priced products among total sales in Japan, core earnings decreased to ¥47.3 billion (down 38.3% year on year) due to negative factors such as increased costs for components and energy prices (continuing on from FYE2022), as well as supply chain disruptions in Europe and inventory adjustments by customers in the Americas.

Housing Technology Business (LHT)

Housing Technology Business (LHT) saw revenue increase to ¥598.2 billion (up 2.4% year on year). This was due to not only the implementation of price optimizations, but also steady demand for renovations aimed at making homes more efficient and enhancing peoples' lifestyles.

On the other hand, despite securing an optimal level of gross profit through price optimization, as well as steady improvement in profitability with the growth of high-performance window product sales, and being able to proceed on course with the adoption of an asset-light approach, core earnings declined to ¥19.4 billion (down 38.9% year on year). This is attributable to the negative impact of decreased sales volume associated with the sluggish demand for new housing, as well as higher-than-expected component prices, and a significant increase in costs due to a further rise in the prices of components procured from international business partners.

Financial Position (As of March 31, 2023)

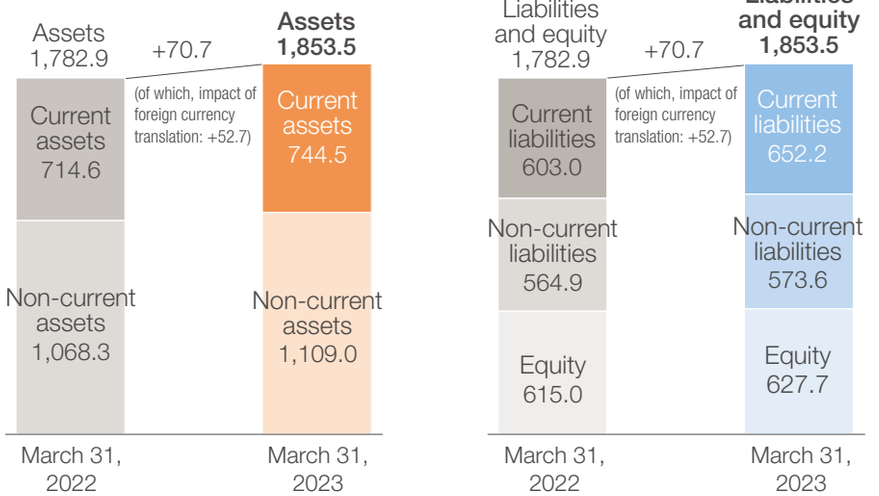
A stable financial base is essential for achieving sustainable medium- to long-term growth. While both enhancing profitability and strengthening our financial position, we will pursue a net interest-bearing debt-to-EBITDA ratio of 3.5 times or less and an improved ratio of equity attributable to owners of the parent to total assets of 35% or more as medium-term targets, and work to improve capital efficiency and reduce interest-bearing debt based on an asset-light approach.

Assets, Liabilities, and Equity as of March 31, 2023

Total assets as of March 31, 2023 amounted to ¥1,853.5 billion (up ¥70.7 billion from the previous fiscal year end). Current assets were ¥744.5 billion (up ¥29.9 billion from the previous fiscal year end), mainly due to the fact that an increase in inventory levels in response to supply chain

Consolidated Financial Position

(¥ billion)



disruptions more than offset a decrease in assets held for sale recorded in the previous fiscal year following the completion of the sale of the former head office building (WING Building). Non-current assets were ¥1,109.0 billion (up ¥40.7 billion from the previous fiscal year end), mainly due to factors such as the effect of foreign currency translation (resulting from the depreciation of the yen) on goodwill and other intangible assets, and the acquisition of subsidiaries, which more than offset a decrease in other financial assets from the sale of listed shares.

Total equity was ¥627.7 billion, and the ratio of equity attributable to owners of the parent to total assets was 33.7% (down 0.6 percentage points year on year).

Cash Flows (FYE2023)

Cash and cash equivalents as of March 31, 2023, totaled ¥106.7 billion (up ¥6.3 billion from the previous fiscal year end), after accounting for the effects of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies and other factors.

Net Cash Flows from Operating Activities

Net cash provided by operating activities was ¥15.0 billion (down ¥103.3 billion year on year), a significant decrease. Main factors included a decrease in profit before tax from continuing operations, as well as a decrease brought about by changes in working capital, including trade and other receivables, trade and other payables, and inventories.

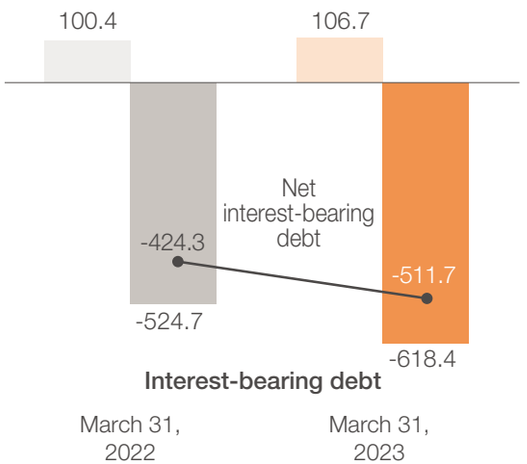
Net Cash Flows from Investing Activities

Net cash used in investing activities was ¥29.3 billion (down ¥4.5 billion year on year). Main factors included purchase of property, plant and equipment and purchase of intangible assets as well as payments for acquisition of subsidiaries, which exceeded proceeds from disposal of property, plant and equipment and proceeds from the sale of listed shares.

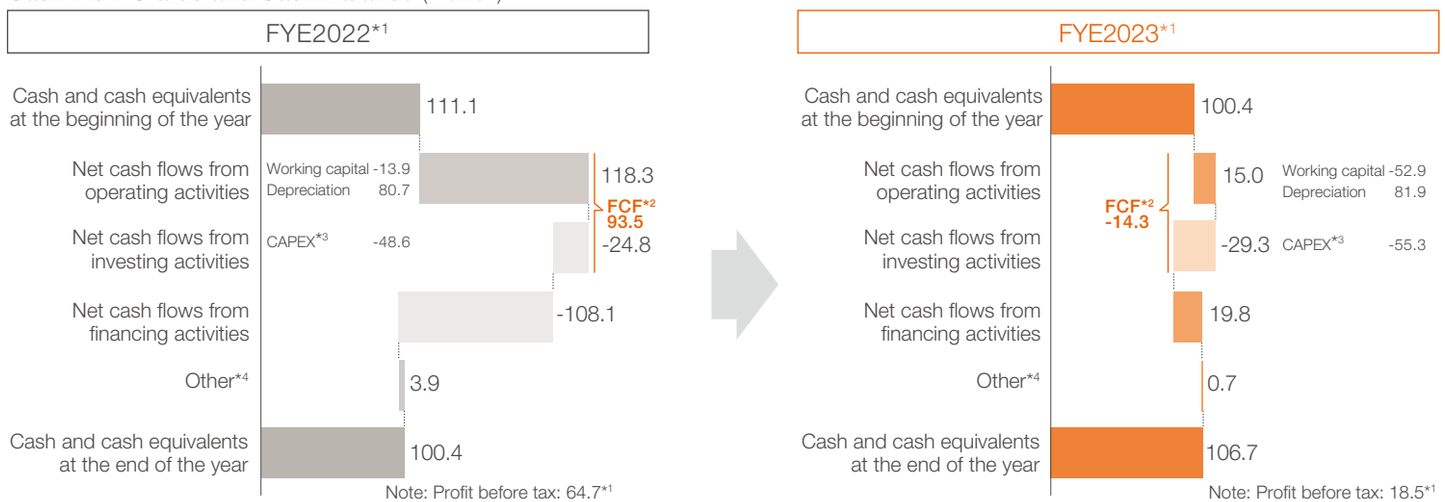
Net Cash Flows from Financing Activities

Net cash provided by financing activities was ¥19.8 billion (compared with net cash used in financing activities of ¥108.1 billion the previous year). Main factors in this large change included flexibly taking on and repayment of interest-bearing debt, including new bond issues, which more than offset dividends paid, lease liabilities paid, and payments for acquisition of treasury shares to improve capital efficiency and enhance shareholder returns.

Cash and cash equivalents
(¥ billion)



Cash Flow Status and Cash Balance (¥ billion)



*1 Includes discontinued operations *2 Free cash flow = Net cash flows from operating activities + Net cash flows from investing activities
*3 CAPEX = Purchase of property, plant and equipment + Purchase of intangible assets (Excluding the purchase of assets classified as right of use assets under IFRS 16 Leases)
*4 Other = Effects of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies + Net increase (decrease) in cash and cash equivalents included in assets classified held for sale

Outlook for FYE2024

A gradual recovery of the economic environment is expected to continue as the effects of the COVID-19 pandemic subside both in Japan and in international markets. Nevertheless, the outlook is expected to remain uncertain, with concerns about ongoing global geopolitical risks such as the Russia–Ukraine conflict, and the possibility of further increases in prices and interest rates, as well as persistently high component and energy prices, among other factors that could have a negative effect on business performance.

Under this business environment, the LIXIL group will continue to optimize selling prices and reduce costs, such as by switching to more cost-efficient materials, and transitioning to a regional procurement and production system centered on the localization of manufacturing processes. In the Japan business, we are working to further strengthen our efforts to capture renovation-related demand and optimize our business models. We will also expand sales of high-value-added products to capture demand in water-related products in international markets, where growth is anticipated.

Thus far, the LIXIL group's response to increased consumer and public concern regarding climate change has included expanding the lineup of environmentally friendly products. However, as a means for achieving further sustainable growth and creating corporate value, we are also planning to integrate environmental strategies into the LIXIL group's overall business strategies while developing and marketing products that are more appealing and provide greater added value.

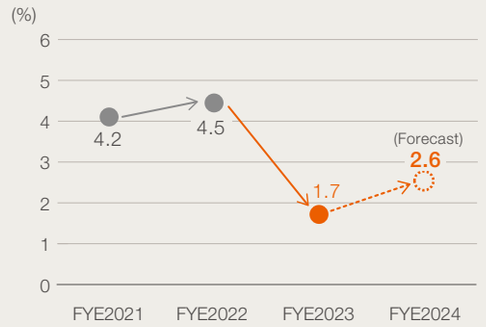
The results of our efforts to strengthen our business foundation are beginning to emerge, and the path we have laid out for long-term growth remains unchanged. We will continue to move forward by further enhancing the value we provide to our stakeholders and, in turn, realize our purpose of making better homes a reality for everyone, everywhere.

FYE2024 Forecast

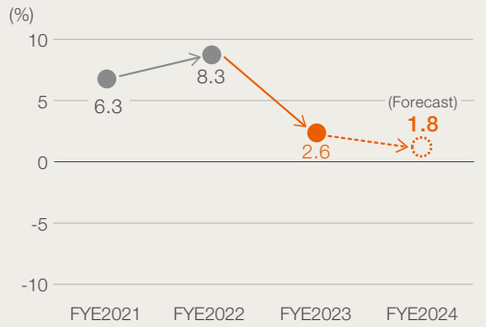
- Revenue: ¥1,530.0 billion (up 2% year on year)
- Core earnings: ¥40.0 billion (up 55% year on year; core earnings margin 2.6%)
- Operating profit: ¥28.0 billion (up 12% year on year)
- Profit before tax: ¥21.0 billion (up 6% year on year)
- Profit for the year attributable to owners of the parent: ¥11.0 billion (up 31% year on year)
- Cash dividends: Planned payment of ¥90 per share for the full year, with interim and year-end dividends of ¥45 per share each.

The above forecasts are based on the information available to LIXIL as of the date of publication, and include risks and uncertainties. Actual results may differ materially from the forecasts above due to various factors.

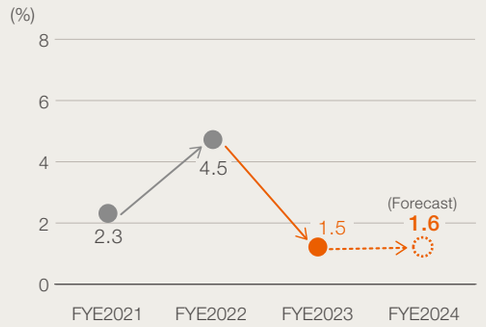
Core earnings margin



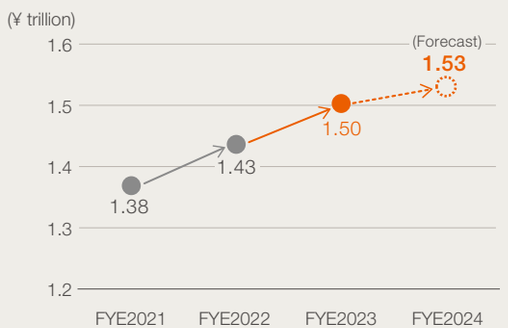
ROE*1



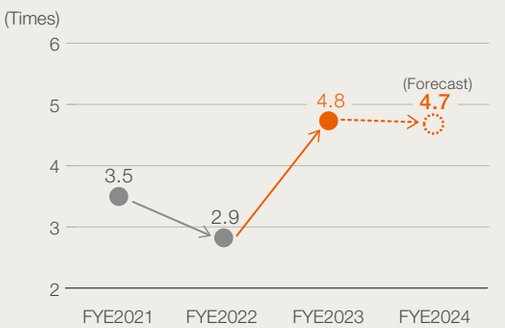
ROIC*2



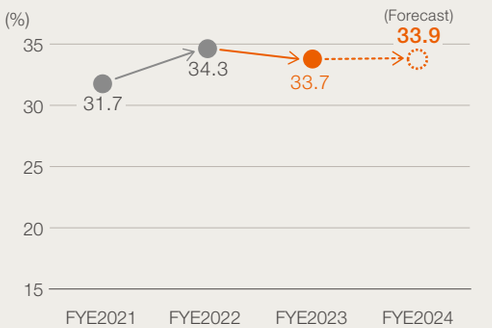
Revenue



Net interest-bearing debt-to-EBITDA ratio



Ratio of equity attributable to owners of the parent to total assets*3



*1 Figure before the effect of share buybacks announced on April 28, 2023 *2 Calculation: Operating profit × (1 – Effective tax rate) / (Working capital + Fixed assets) *3 Equivalent to “equity ratio” under JGAAP

PRINCIPAL GROUP COMPANIES

(As of March 31, 2023)

Consolidated Subsidiaries

Name	Location	Paid-in capital (¥ million)	Equity owned by the holding company (%)	Business segment
LIXIL Total Service Corporation	Sumida-ku, Tokyo	100	100	LWT, LHT
TM.S Corporation	Shinagawa-ku, Tokyo	60	100	LWT
Dinaone Corporation	Chuo-ku, Tokyo	90	100	LWT
LIXIL Europe S.à r.l.*1	Luxembourg	€ thousand 57,143	100	LWT
Grohe AG*1	Düsseldorf, Germany	€ thousand 60,885	100	LWT
Other 49 affiliate companies of LIXIL Europe S.à r.l.	—	—	—	LWT
ASD Holding Corp.*1	New Jersey, USA	US$ thousand 412,961	100	LWT
15 affiliate companies of ASD Holding Corp.	—	—	—	LWT
A-S (China) Co., Ltd.	Shanghai, China	US$ thousand 30,000	100	LWT
LIXIL Vietnam Corporation	Hanoi, Vietnam	VND million 743,386	100	LWT
LIXIL (Thailand) Public Co., Ltd.	Pathumthani, Thailand	THB million 277	99	LWT
LIXIL AFRICA HOLDINGS (Pty) Ltd.*1	Krugersdorp, South Africa	ZAR million 2,726	100	LWT
LIXIL (China) Investment Co., Ltd.*1	Shanghai, China	CNY thousand 450,605	100	LWT
Taiwan LIXIL Water Technology Corporation*2	Taipei, Taiwan	NT$ thousand 282,677	100	LWT
LIXIL Living Technology (Suzhou) Corporation*3	Suzhou, Jiangsu, China	CNY thousand 395,464	100	LWT
LIXIL Sanitary Fitting Manufacturing (Suzhou) Corporation	Suzhou, Jiangsu, China	1,730	100	LWT
LIXIL India Sanitaryware Private Limited	Andhra Pradesh, India	INR thousand 69,823	100	LWT
LIXIL Total Hanbai Corporation	Shinagawa-ku, Tokyo	75	100	LHT
G TERIOR Corporation	Shinagawa-ku, Tokyo	316	100	LHT
LIXIL Housing Research Institute, Ltd.	Shinagawa-ku, Tokyo	100	100	LHT
Asahi Tostem Exterior Building Materials Co., Ltd.	Shinagawa-ku, Tokyo	100	80	LHT
LIXIL Renewal Corporation	Sumida-ku, Tokyo	100	100	LHT
LIXIL TEPCO Smart Partners Inc.	Sumida-ku, Tokyo	450	60	LHT
Sonitech Corporation	Sumida-ku, Tokyo	66	100	LHT
LIXIL Toyo Sash Shoji Co., Ltd.	Sumida-ku, Tokyo	100	100	LHT
Kuwata Co., Ltd.	Suma-ku, Kobe, Hyogo	30	100	LHT
LIXIL REALTY, Corp.	Taito-ku, Tokyo	160	100	LHT
Oita Tostem Co., Ltd.	Oita, Oita	50	100	LHT
Nishi Kyushu Tostem Co., Ltd.	Saga, Saga	30	100	LHT
GHS Corporation	Shinagawa-ku, Tokyo	100	100	LHT
LIXIL Living Solution Corporation	Shinagawa-ku, Tokyo	100	100	LHT
LIXIL Home Finance Corporation	Chiyoda-ku, Tokyo	500	100	LHT
LIXIL INTERNATIONAL Pte. Ltd.*1	Singapore	30,565	100	LHT
TOSTEM THAI Co., Ltd.*1	Pathumthani, Thailand	THB million 2,767	100	LHT
LIXIL GLOBAL MANUFACTURING VIETNAM Co., Ltd.	Dong Nai, Vietnam	4,310	100	LHT, LWT
LIXIL Manufacturing (Dalian) Corporation	Dalian, Liaoning, China	US$ thousand 43,500	100	LHT
LIXIL WINDOW SYSTEMS PRIVATE LIMITED	Haryana, India	INR thousand 858,318	100	LHT
PT. LIXIL ALUMINIUM INDONESIA	Cileungsi, Indonesia	IDR million 173,617	75	LHT
41 other companies *4,5,6				

*1 Specified subsidiary

*2 Taiwan Inax Corporation changed its name to Taiwan LIXIL Water Technology Corporation.

*3 LIXIL Building Materials Manufacturing (Suzhou) Corporation changed its name to LIXIL Living Technology (Suzhou) Corporation.

*4 Among other companies, LIXIL India Private Limited is a specified subsidiary.

*5 LIXIL Africa (Pty) Ltd. is an insolvent company with liabilities of ZAR 1,399 millions in excess of assets as of March 31, 2023.

*6 The Company decided to merge with LIXIL Group Finance Corporation on May 12, 2022, and concluded a merger agreement on the same date.

Equity-Method Affiliates

Name	Location	Paid-in capital (¥ million)	Equity owned by the holding company (%)	Business segment
Sanyo Homes Corporation*1	Nishi-ku, Osaka, Osaka	5,945	27*2	—
42 other companies				

*1 The company submits securities reports.

*2 "Equity owned by the holding company" shows the ratio of the number of shares owned by the Company to the total number of issued shares (excluding treasury stock) of Sanyo Homes Corporation as of March 31, 2023.

GLOBAL MANUFACTURING AND SALES SITES

(As of March 31, 2023)

Number of factories

80 sites

Japan 37	International 43

	Japan	Americas	Europe	China/ Asia Pacific
LWT	20	13	4	21
LHT	17*	—	—	5

* Seven of the LHT factories also manufacture commodities for buildings.

Number of showrooms

116 sites

Japan 84	International 32

Japan	Europe	China/ Asia Pacific
84	10	22

Home reform shops and reform network members in Japan	11,768 stores
Homebuilding franchise members in Japan	195 stores

STAKEHOLDER ENGAGEMENT

We strive to resolve social issues by collaborating with the stakeholders who support our business activities.

Stakeholders	Type of engagement
Customers	・Provide timely and appropriate disclosure on products and services ・Incorporate customer feedback into products and services ・Offer customer support via telephone, email, and showrooms Customer Satisfaction >
Suppliers	・Build and maintain strong relationships by facilitating two-way communication ・Share our Procurement Principles and recognize current circumstances through responsible procurement surveys ・Follow through on promised improvements based on the results of above surveys ・Hold regular meetings ・Share information on regulatory trends and new procurement strategies Supply Chain Management >
Shareholders and investors	・Hold discussions with investors (368 times in FYE2023) ・Hold an annual ESG briefing for investors ・Disclose information through our Integrated Report and investor relations web pages ・Disclose timely information in English and Japanese on the Tokyo Stock Exchange website Investor Relations > FYE2023 ESG briefing for investors >
Employees	・Conduct global employee opinion surveys ・Hold regular discussions between the union and the Company ・Create an inclusive and inspiring working environment that incorporates feedback gained through above activities Our People >
Local communities	・Respect local cultures and customs ・Contribute to community development ・Communicate with local residents through community briefings and factory visits ・Hold outreach classes on social issues such as sanitation, the environment, and diversity at local schools ・Implement LIXIL x SDGs NEXT STAGE to convey information about LIXIL's SDGs activities Community > LIXIL×SDGs NEXT STAGE (Japanese only) >
NPOs, NGOs, and educational and research institutions	・Build partnerships (Research studies, solution development, and seminars)
Government authorities and industrial associations	・Participate in several industrial and business associations whose missions include engaging with public authorities (Window sash, plumbing, metal, and other industrial associations and economic organizations) ・Collect up-to-date information on relevant laws and international agreements related to our business

Stakeholder Cooperation in Our Three Strategic Pillars

MAKE A SPLASH! Partnership with UNICEF

Global Sanitation & Hygiene

Through our MAKE A SPLASH! global partnership with UNICEF, LIXIL helps to establish markets for hygiene-related goods such as toilets and handwashing products and to improve the overall sanitation environment in low- and middle-income countries.

MAKE A SPLASH! >

THINK Heat: Let's Think about Eco- and People-Friendly Temperatures

Water Conservation & Environmental Sustainability

We launched THINK Heat initiatives to build awareness and understanding of climate change mitigation and adaptation. Those initiatives include outreach classes called "Healthy Living and Good for the Environment" for people primarily at elementary schools, as well as donation of *Style Shade* external sunshades to childcare centers and nurseries in partnership with local customers, governments, and business partners. The donation was funded by a portion of the revenue earned from sales of thermal windows and other energy-saving products that help reduce CO_2 emissions.

THINK Heat: Let's Think about Eco- and People-Friendly Temperatures (Japanese only) >

Art Brut Ecocarat: Tiles featuring designs by neurodivergent artists

Diversity & Inclusion

LIXIL has launched a new product line that incorporates art brut artworks, drawn by neurodivergent artists contracted to Heralbony Co., Ltd., into our *Ecocarat* tiles. By paying license royalties out of the product sales revenue to the artists, we aim to create new revenue streams for them and help create an inclusive society in which everyone can play an active role, in collaboration with Heralbony Co., Ltd.

Art Brut Ecocarat (Japanese only) >

BASIC POLICY FOR INVESTOR RELATIONS

The Company's investor relations (IR) activities facilitate communication with the Japanese and international capital markets, thereby helping to enhance corporate value. These IR activities convey messages from senior management to markets while providing senior management with feedback from markets in an unflagging effort to boost corporate value.

Based on the timely disclosure rules of the Tokyo Stock Exchange, the Company discloses important information, including decisions, events, or information regarding accounts settlement, that might affect investment judgments. It is also the Company's policy to disclose information that does not fall under the timely disclosure rules as proactively and fairly as possible, in order to better meet investors' needs.

Investor Relations

www.lixil.com/en/investor/

Activities for FYE2023

- Communicated management messages to the markets (for institutional investors and analysts)
  - Earnings briefing sessions: 4 (quarterly)
  - One-on-one meetings: 368
  - Briefing sessions regarding management strategy and business strategy: 5
  - Small meetings: 3
  - Investor conferences participated in: 5
  - Social gathering with shareholders: 1

- Feedback from markets to the Company
  - Reported on IR activities at Board of Directors: Regularly, as well as 4 times/year after earnings briefing sessions
  - Exchanged opinions with business divisions on business condition and market outlook: Regularly
  - Shared information with management via email: Regularly

External Recognition (From April 2022 to June 2023)

FTSE Russell Indexes
Selected as a constituent of the FTSE Blossom Japan Sector Relative Index (March 2022); selected as a constituent of the FTSE4Good Index Series and FTSE Blossom Japan Index for the sixth consecutive year (June 2022)

MSCI ESG Ratings AAA
MSCI ESG Rating improved to AAA (from AA; February 2023)
(Please refer to our website* for disclaimers.)

CDP Water Security A List
As a result of our multifaceted initiatives to address water risk, we were selected for the A List (the highest ranked list) for the second consecutive year (December 2022)

CDP Supplier Engagement Leaderboard
Received the highest rating for the third consecutive year (March 2023)

* www.lixil.com/en/about/evaluation.html

Dow Jones Sustainability Indices
Selected as a component of the S&P Global DJSI World Index for the fourth consecutive year and the DJSI Asia/Pacific Index for the sixth consecutive year (December 2022)

MSCI ESG Leaders Indexes
Selected as a constituent of the MSCI Japan ESG Select Leaders Index (December 2022)
(Please refer to our website* for disclaimers.)

MSCI Japan Empowering Women Index
Selected as a constituent of the MSCI Japan Empowering Women Index (WIN) for the sixth consecutive year (June 2022)
(Please refer to our website* for disclaimers.)

Digital Transformation Stock 2023
Selected as a Digital Transformation Stock 2023, a joint initiative of the Ministry of Economy, Trade and Industry, the Tokyo Stock Exchange, and the Information-technology Promotion Agency, Japan, for the second consecutive year (May 2023)

Nadeshiko Brand
Selected under the Nadeshiko Brand initiative, a joint initiative of the Ministry of Economy, Trade and Industry and the Tokyo Stock Exchange (seventh time, March 2023)

Health & Productivity Management Outstanding Organization (White 500)
Certified as a Health & Productivity Management Outstanding Organization under the Certified Health & Productivity Management Outstanding Organizations Recognition Program, a joint initiative of the Ministry of Economy, Trade and Industry and the Nippon Kenko Kaigi, Japan; selected as a White 500 enterprise, recognized among the top 500 under the large enterprise category (March 2023)

Environmentally Sustainable Company
Selected as an Environmentally Sustainable Company at the ESG Finance Awards Japan held by the Ministry of the Environment (February 2023)

Gomez IR Site Ranking 2022
Awarded silver prize in the overall IR site ranking and second place in the "Metal Products" industry category (December 2022)

"Most Liked!" IR Award
Received the "Most Liked!" IR award in the 2022 IR Awards held by the Japan Investor Relations Association (November 2022)

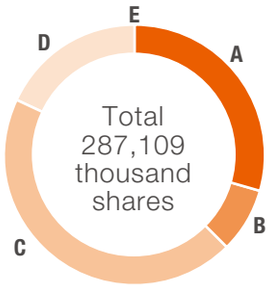
SHAREHOLDER INFORMATION

(As of March 31, 2023)

Number of Shares and Shareholders

Number of shares authorized	1,300,000,000
Number of shares outstanding (Excluding treasury stock of 51,992 shares)	287,057,667
Number of shareholders	53,606

Distribution of Ownership among Shareholders (Thousand shares)



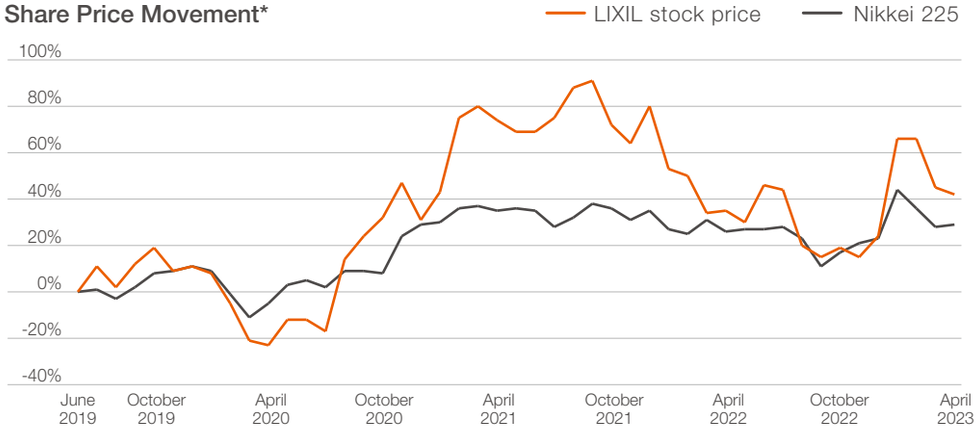
A	Financial institutions	84,603
B	Japanese companies	23,111
C	International investors	127,917
D	Individuals and others	51,425
E	Treasury stock	51
	Total	287,109

Major Shareholders (Thousand shares)

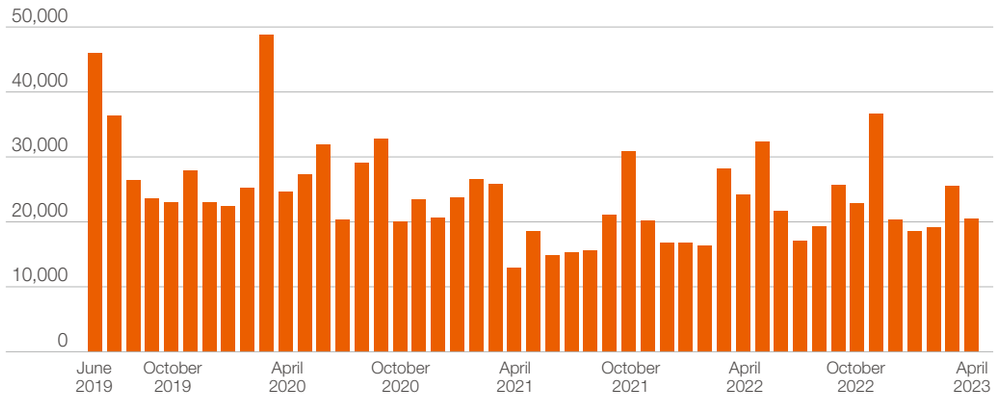
Name of shareholder	Number of shares held	Ratio of shareholdings
The Master Trust Bank of Japan, Ltd. (Trust Account)	47,895*	16.69%
JP MORGAN CHASE BANK 385632 (Standing Proxy: Settlement & Clearing Services Division, Mizuho Bank, Ltd.)	29,837	10.39%
Custody Bank of Japan, Ltd. (Trust Account)	14,075*	4.90%
SSBTC CLIENT OMNIBUS ACCOUNT (Standing Proxy: The Hongkong and Shanghai Banking Corporation Limited Tokyo Branch)	13,820	4.81%
LIXIL Employee Stock Ownership	6,834	2.38%
BNYM AS AGT/CLTS 10 PERCENT (Standing Proxy: MUFG Bank, Ltd.)	6,596	2.30%
NORTHERN TRUST CO. (AVFC) SUB A/C AMERICAN CLIENTS (Standing Proxy: The Hongkong and Shanghai Banking Corporation Limited Tokyo Branch)	5,562	1.94%
STATE STREET BANK CLIENT OMNIBUS OM04 (Standing Proxy: The Hongkong and Shanghai Banking Corporation Limited Tokyo Branch)	5,420	1.89%
STATE STREET BANK WEST CLIENT – TREATY 505234 (Standing Proxy: Settlement & Clearing Services Division, Mizuho Bank, Ltd.)	4,740	1.65%
JPMORGAN SECURITIES JAPAN CO., LTD.	4,496	1.57%

Notes:
In addition to the above, LIXIL Corporation holds 51 thousand shares of treasury stock.
Shareholding calculations exclude treasury stock.
* indicates a trust service arrangement

Share Price Movement*



Stock Trading Volume (Thousand shares)



* Relative stock price trend based on the closing stock price as of June 30, 2019.

CORPORATE DATA

(As of March 31, 2023)

Company Name
LIXIL Corporation

Established
September 19, 1949

Registered Office
Osaki Garden Tower, 1-1 Nishi-Shinagawa 1-chome, Shinagawa-ku, Tokyo 141-0033, Japan

Paid-In Capital
¥68,418 million

Fiscal Year End
March 31

Employees
Consolidated employees: 51,501

Financial Auditors
Deloitte Touche Tohmatsu LLC

Overview of Major Businesses
The Company manufactures and sells building materials and housing equipment for housing and buildings, and operates housing-related businesses as well as related services

Common Stock Listings
Tokyo Stock Exchange Prime Market
Nagoya Stock Exchange Premier Market

Transfer Agent and Special Management of Accounts
Mitsubishi UFJ Trust and Banking Corporation

Annual Shareholders' Meeting
Normally held in June

LIXIL Online Information

Corporate Website

In addition to the Company profile, sustainability initiatives, and the latest news, our corporate website also contains sections covering the Company's recent business initiatives and insights from the CEO.

www.lixil.com

Financial Information

Our IR website offers comprehensive content for shareholders and other investors, including information regarding financial results, streaming video of results briefings, and performance data.

www.lixil.com/en/investor/

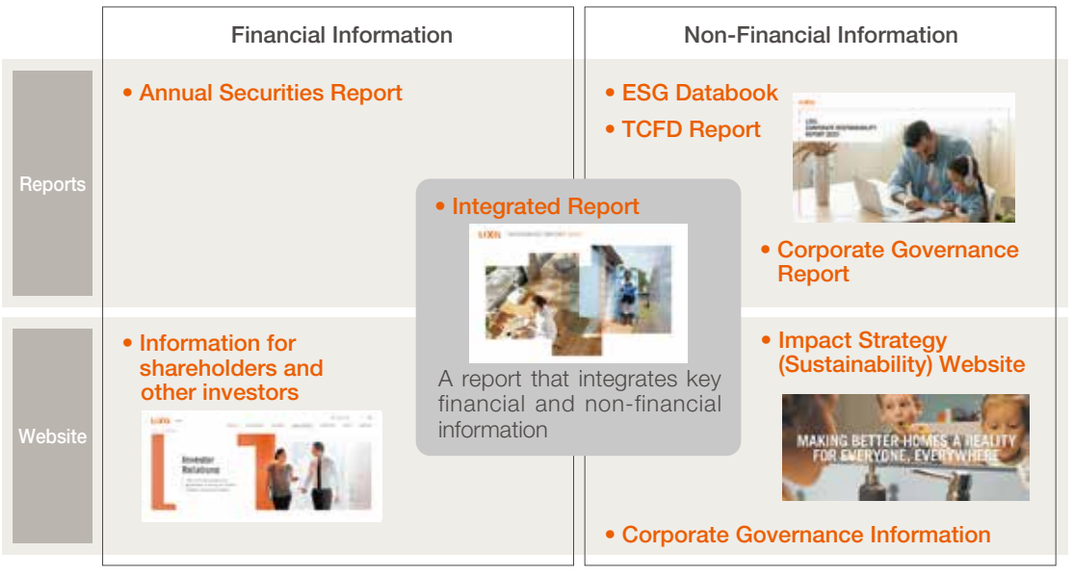
Non-Financial Information

Our corporate website introduces LIXIL's Impact Strategy and initiatives around the world in order to contribute to achieving the SDGs, under our corporate purpose: "make better homes a reality for everyone, everywhere."

www.lixil.com/en/impact/

Overview of Information Disclosure

Please visit our website for more information on these subjects.



Cautionary Statement with Respect to Forward-Looking Statements

Statements made in this integrated report with respect to plans, strategies, and future performances that are not historical facts are forward-looking statements. LIXIL Corporation cautions that a number of factors could cause actual results to differ materially from those discussed in the forward-looking statements.

LIXIL Corporation
www.lixil.com

TSE Securities Code: 5938

2023.06.26